
Asetek
ANNUAL REPORT 2015 2016 2017 2018

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BOARD OF DIRECTORS
Chris J. Christopher, Chairman
Jim McDonnell
Jørgen Smidt
Maria Hjorth

NOMINATION COMMITTEE
Ib Sønderby
Jørgen Smidt
Scott Pagel

AUDIT COMMITTEE
Chris J. Christopher
Maria Hjorth

COMPENSATION COMMITTEE
Jim McDonnell
Jørgen Smidt

EXECUTIVE MANAGEMENT
André Sloth Eriksen, CEO
Peter Dam Madsen, CFO

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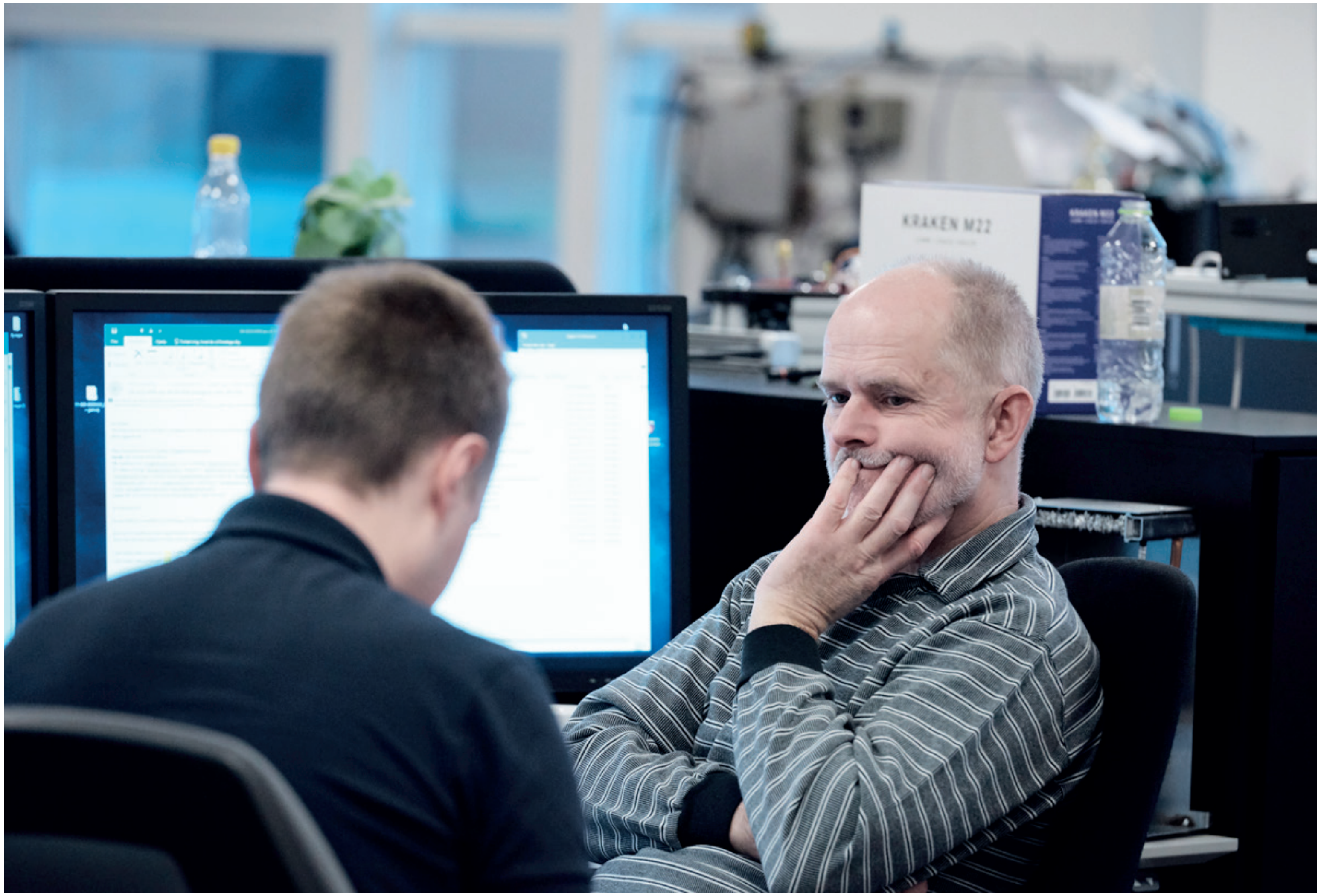
EXECUTIVE MANAGEMENT

André Sloth Eriksen
CEO

Peter Dam Madsen
CFO



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It is only a matter of breaking habits and showing genuine determination

CEO COMMENT

EXPECT STRICTER ENVIRONMENTAL REQUIREMENTS FOR THE BENEFIT OF THE CLIMATE AND ASETEK

The extreme growth in gigantic data centers around the world is calling for more concern about our climate. Even in Denmark alone, Asetek's home country, three of the largest datacenter operators are well on the way to becoming internationally focused giant centers.

In addition to the increased power consumption, there is a huge potential in reusing the heat that the power-hungry servers deliver. But nowhere have the politicians at this point made energy demands on the companies behind the servers. According to a projection from the Danish Energy Agency, datacenters will account for as much as 17 percent of the total Danish electricity consumption in 2030. An electricity consumption which the agency estimates will have increased by one third in the period up to 2030 - and primarily due to the increasing datacenter consumption.

"This is mindboggling, considering the intensely increased political emphasis currently on, for example, car manufacturers turning their production towards electric cars," notes André Sloth Eriksen, CEO of Asetek. "With the data center power consumption projections that exist just in Denmark, we would be able to heat the 3 largest provincial towns in Denmark alone with the waste heat from these data centers."

André believes that at some point it must dawn on the decision makers how much energy and CO2 emissions can be saved by requiring that datacenters use liquid cooling solutions such as Asetek's, which remove and absorb heat directly on the source, the ever-hotter microprocessors. An estimated four percent of the world's electricity consumption goes to the operation of servers, half of which is cooling - an energy consumption that Asetek's patented water cooling as a rule of thumb can again halve.

"The same three large Danish provincial towns that we talked about can, of course, be kept warm with the reuse of the 60 degrees centigrade hot water that we can collect and send out in the existing district heating infrastructure. Far more meaningful than just sending it out in nature, which is the consequence of traditional air cooling," continues André.

The datacenters will not even become more expensive, since Asetek's approach does not require heat pumps or anything else out of the ordinary. "It is only a matter of breaking habits and showing genuine determination," says Asetek's CEO.

"In addition, keep in mind that for every kilowatt-hour recycled heat, we save the CO2 that it would otherwise take to produce that kilowatt-hour. Recycled datacenter heat is 100 percent clean energy. If you imagine datacenters, for example powered by wind turbines, the same pure power will indirectly heat hundreds of thousands of homes - just in Denmark," adds André.

At Asetek, there is optimism about the climate efforts and the potential positive financial impact on the company. Over time, the increased political awareness will work for liquid cooling solutions. For the same reason, Asetek has in the past year been affiliated with a consultant based in Munich, who will keep the company updated on the EU's ongoing work around environmental legislation and regulations.

Asetek has for many years been known only in the industry as an OEM partner in a niche market for liquid cooling of data centers, which has not yet really seen a commercial breakthrough, even though Asetek has entered into a cooperation agreement with Intel and is a supplier of liquid cooling to some of the world's largest supercomputer datacenters.

"Compared to smartphones and computers, Asetek and its liquid cooling technology have not been presented clearly enough for the politicians who have to make some decisions. We are working to change this through meetings with climate scientists," says André Sloth Eriksen.

SHAREHOLDERS INFORMATION

Asetek's shares are listed on Oslo Børs. As of December 31, 2018, a total of 25,784,841 shares are issued, each with a nominal value of DKK 0.1.

The share is classified in the "Information Technology" sector by the stock exchange, and the ticker mark is ASETEK.

The total market capitalization value at the end of 2018 was NOK 1,036 million (approximately USD 119 million) which was a decrease of 63% from the market value at the beginning of 2018.

245,340 shares were held by the Company on December 31, 2018 as treasury shares, primarily to support an employee stock option program.

Each share provides one vote. The shares are marketable securities and no restrictions have been set for the shares' negotiability. The share register is maintained by DNB Bank ASA - Verdipapirservice, Postboks 1600 Sentrum, 0021 Oslo, Norway.

OWNERSHIP

At the end of 2018, Asetek A/S had 644 shareholders, some of whom are nominee accounts covering several individual investors.

Members of Asetek A/S's Board of Directors and Executive Board owned or represented a total of 7.5% of the share capital at the end of 2018.

1 JANUARY 2018

Asetek shares opened the year 2018 at NOK 99.10.

31 DECEMBER 2018

At the last trading day of the year, Asetek shares closed at NOK 40.60, which was a decrease of 59% from the beginning of the year. The Oslo Stock Exchange (OSE) Benchmark Index declined 2% in 2018. The OSE Information Technology Index declined 19% in 2018.

According to Asetek's registrations, the following shareholders possessed 5% or above of the share capital as per December 31, 2018:

Shareholder	Number of Shares	%
The ATP Group	2,834,828	11.0%
UBS Switzerland AG	2,015,253	7.8%
Clearstream Banking SA	1,703,474	6.6%
Sunstone Technology Ventures Fund	1,586,341	6.2%

INVESTOR RELATIONS

Asetek aims to provide a consistent, high level of information to its shareholders and other interested parties.

It is Asetek's intention to conduct an active dialogue with shareholders, analysts, the press and the public as a whole. Communication with interested parties takes place via the ongoing publication of notifications, investor presentations and individual meetings.

The website www.asetek.com is the primary source of information for interested parties. It is updated regularly with information about Asetek's activities and strategy. Shareholders, analysts, investors, stockbrokers as well as other interested parties who have questions regarding Asetek are requested to inquire via the email address investor.relations@asetek.com, which is monitored by the CFO.

Dividends. Asetek continues to invest its capital in the development and marketing of its cooling products. Asetek's policy allows for distribution of a dividend to its shareholders of up to 50% of the previous year's net income (after tax profits), after taking into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility.

REPORTING CALENDAR FOR 2019:	
Annual General Meeting:	April 10, 2019
Q1 2019 Report:	April 30, 2019
Q2 2019 Report:	August 14, 2019
Q3 2019 Report:	October 23, 2019

STOCK EXCHANGE NOTICES ISSUED IN 2018

ISSUE DATE	SUBJECT
December 12, 2018	Notice of Extraordinary General Meeting 14 January 2019
November 2, 2018	Employee Stock Option Program
October 25, 2018	Asetek Announces Favorable Ruling in Chinese Lawsuit
October 24, 2018	Q3 2018: Hardware Enthusiasts and Gamers Drive Growth
October 23, 2018	Chairman Retires
October 17, 2018	Asetek Presents Third Quarter Results on Wednesday, 24 October
September 19, 2018	Mandatory Notification of Trade
September 19, 2018	Share Capital Increase upon Exercise of Warrants
September 11, 2018	Asetek Receives Order for New HPC Installation from Fujitsu
August 15, 2018	Q2 2018: Record quarterly revenue
August 7, 2018	Asetek Presents Second Quarter 2018 Results on Wednesday, 15 August
June 18, 2018	Disclosure of Shareholding
June 15, 2018	Update to Q2 and Full Year 2018 Desktop Revenue Guidance
May 29, 2018	Share Capital Increase upon Exercise of Warrants
May 16, 2018	Asetek Receives Order for New HPC Cluster from Fujitsu
May 4, 2018	Asetek Receives Follow-on Order from Penguin Computing
April 27, 2018	Mandatory Notification of Trade: Chairman Exercises Warrants

ISSUE DATE	SUBJECT
April 25, 2018	Outcome of Annual General Meeting
April 25, 2018	Asetek Receives confirmation of HPC award from Quanta Computer
April 25, 2018	Q1 2018: Record Q1 revenue
April 18, 2018	Reminder: 2018 Q1 Results and Capital Markets Update
April 6, 2018	Share Capital Increase
April 3, 2018	Mandatory Notification of Trade
March 27, 2018	Mandatory Notification of Trade: CEO Exercises Options and Sells Shares
March 27, 2018	Notice of Annual General Meeting April 25, 2018
March 22, 2018	Sunstone Capital has sold 1,600,000 shares in Asetek A/S
March 21, 2018	Sunstone Capital contemplates sale of up to 1,600,000 shares in Asetek A/S
March 20, 2018	Invitation to Capital Markets Update
March 15, 2018	Asetek Announces Ongoing Collaboration with Intel on Liquid Cooling for Servers and Datacenters
February 28, 2018	Q4 2017: Continued growth
February 21, 2018	Asetek Presents Fourth Quarter 2017 Results on Wednesday, 28 February
January 24, 2018	Asetek Receives Order from Fujitsu for Institute of Fluid Science at Tohoku University
January 2, 2018	Financial calendar

We can not rest on our laurels. Asetek's quality products can and must be optimized continuously

ASETEK'S ENGINEERS FOCUS ON FUTURE MARKETS

There is a quiet and concentrated bustle in the large, newly decorated office landscape that houses Asetek's R&D department. At the headquarters in Aalborg, most of the company's approximately 30 dedicated engineers spend much of their time in front of their many large computer screens. Among other things, crunching thermal and structural simulations and calculations, when they are not meeting quickly and informally to discuss different angles on the challenges of the day.

But what exactly is there to work on? Has Asetek not, once and for all developed and patented CPU liquid cooling, the focal point of the company's business model, whether talking gaming or data center? We asked Thomas Ditlev, who a year ago came to Asetek as VP Global R&D. He came from the world-renowned pump manufacturer Grundfos, which has remained a market leader for decades.

"We cannot rest on our laurels. Asetek's quality products can and must be optimized continuously, so we can retain our leading role in the niche market of liquid cooling. And expand the market so we take a larger share. We have no doubt that the Asetek technology has the potential", explains Thomas. He emphasizes that it is both the choice of materials and the actual design of the individual components that can be fine-tuned to improve the performance in relation to energy consumption. Even small improvements should always be sought after – such as the rubber alloy in the tubes or – right down to the finest detail - the calculation of the optimal cutting angles of the fins on the copper cooling plate, or the dimensioning of the heat exchanger, etc.

DEVELOPMENT AND DELIVERY TIME COMES DOWN

Some of the conditions that Thomas Ditlev is also particularly aware of in relation to the competitiveness of future Asetek products are – at the same time – to reduce development and delivery time and thus the costs as much as possible.

"It is already happening through digitization and simulations that make us less dependent on physical prototypes in the process. Prototypes that otherwise take much extra time to build for each version. Just as we are even more focused on manufacturing our components in Lego-like modules for storage, so that they can be quickly assembled, for example, with various interfaces that match the relevant customer's latest products", explains Thomas. With reference to his own experiences from Grundfos, work is now being done to reduce the development time at Asetek from 10-12 weeks to 4-6 weeks.

NEW PRODUCTS COMING

At the same time, Thomas suggests that Asetek's R&D department now also focuses more on how other components, and not merely the processors, can advantageously be liquid cooled particularly in high performance computers.

"We have new products on the way in 2019", says Thomas. "Today, it is also the increasingly powerful graphics cards that emit significant heat and become the critical component. And what about the many other components that are part of a gamer PC or a large workstation?" Opportunities abound.

MANAGEMENT REPORT

The Year 2018 Outlined

// **Record revenue of $67.3 million representing 16% growth**

// **Gaming and Enthusiast revenue expands to $63.0 million, up 18% from 2017**

// **Operating income increases 60%, Adjusted EBITDA grows to $9.4 million**

// **The year 2018 was a year of growth and achievement for Asetek.**

// Revenue in 2018 totaled $67.3 million, a record level for the Company and growth of 15.7% over 2017 ($58.2 million).

/ Gaming and Enthusiast (previously Desktop) revenue of $63.0 million represented an 18% increase from 2017 ($53.2 million), fueled by significant growth in shipments to the Do-it-Yourself (DIY) market.

/ Data center revenue of $4.3 million in 2018 was lower than 2017 ($5.0 million), while the Company developed new technology focused on in-rack cooling and continued to expand its ecosystem of OEM partners.

// Gross margin expanded to 38.9% in 2018 from 36.0% in 2017. The growth primarily reflects higher average selling prices (ASPs) associated with a richer mix of Gaming and Enthusiast product shipments.

// Asetek earned operating income of $4.4 million for the year, reflecting 60% growth from 2017 ($2.8 million). Adjusted EBITDA was $9.4 million in 2018, compared with $6.8 million in 2017.

/ Operating profit (adjusted EBITDA) from the Gaming and Enthusiast segment was $20.7 million for the year, an increase from $16.0 million profit in 2017. Revenue growth in the Gaming and Enthusiast market was driven principally by high volume shipments of Enthusiast/DIY products to Asetek's largest customers.

/ Operating loss (adjusted EBITDA) from the data center segment was $7.3 million for the year, level with 2017 ($7.3 million). The data center spending reflects investment in development, sales and marketing, production resources and equipment/tools.

/ Headquarters expenses of $4.4 million increased from 2017 ($2.4 million) due to the effect of $1.0 million in awards received from successful patent litigation in 2017 as well as foreign currency fluctuation.

// Operational achievements during the year:

/ Asetek continued its success as the leading supplier of liquid cooling solutions for high-end computing, shipping 1.1 million sealed loop liquid cooling units in 2018, representing growth of 10% from 2017.

/ Asetek announced customer wins utilizing Asetek's latest Generation 6 liquid cooling solutions:

ASUS, a premium brand for gaming systems, expanded its Republic of Gamers (ROG) ecosystem with the new ASUS ROG all-in-one coolers, Ryujin and Ryuo.

Asetek's major DIY partner, Corsair, launched the new Hydro Series H100i PRO liquid cooler, joining the H150i PRO and H115i PRO coolers.

/ Data center sales to Fujitsu Technology Solutions GmbH ("Fujitsu") totaled $1.9 million, including shipments for multiple HPC projects around the globe.

/ Asetek provided liquid cooling to Quanta Computer, a new data center OEM, for an HPC cluster at the National Center for High-Performance Computing in Hsinchu, Taiwan.

ASETEK'S BUSINESS

Asetek is a global leader in liquid cooling solutions for computer hardware enthusiasts, gamers, servers and data centers. Asetek's products enable increased performance and provide lower acoustic noise, power savings and improved efficiency when compared with air cooling.

The Company's server products offer direct-to-chip liquid cooling solutions to OEM providers for delivery of cost effective, high performance data center solutions. Asetek's Gaming and Enthusiast products are all-in-one coolers that provide reliable, maintenance-free liquid cooling to gaming and high-performance PC customers.

With over six million liquid cooling units deployed, Asetek's patented technology is being adopted by a growing portfolio of OEMs and channel partners. Founded in 2000, Asetek is headquartered in Demark and has operations in California, Texas, China and Taiwan.

BUSINESS MODEL

Asetek's business model begins with its research and development team based in Aalborg, Denmark, which manages collaboration with the Company's global customer base to define requirements and develop cutting edge technology. The Aalborg team works with the R&D team in Xiamen, China to identify the optimal sources for the necessary components to fulfill customer requirements.

The sales and marketing team, based principally in USA, oversees the customer relationships to facilitate communication and development, ensuring the developed product meets or exceeds customer demands. Sales and marketing teams based in Europe and Asia lead or assist efforts with the customers based outside of USA.

The flow of physical product generally commences in Asia. Asetek's manufacturing and logistics team in Xiamen, China select components and suppliers for the finished product to be assembled by the Company's principal contract manufacturer based in Xiamen. Finished products are delivered directly to customer hubs in China, with smaller quantities shipped to Europe and USA. Lower volume, highly complex products and components are manufactured in Asetek facilities in Aalborg.

FINANCIAL POSITION AND OPERATING RESULTS FOR 2018

PROFIT AND LOSS

Total revenue for 2018 was $67.3 million, representing an increase of 16% from 2017 ($58.2 million). Sealed loop cooling unit shipments for 2018 totaled 1.1 million, a 10% increase over 2017 (1.0 million). Average Selling Prices (ASP) for the year 2018 increased to $56.34 from $52.18 in 2017, principally resulting from shipment of new high-end Gaming and Enthusiast products.

Gross margin increased to 38.9% in 2018 from 36.0% in 2016. The increase reflects higher ASPs which more than offset increased manufacturing costs and the effects of unfavorable currency exchange rates in comparison to 2017.

In 2018, total operating expense was $21.8 million, a 19% increase from 2017 ($18.2 million), reflecting several factors. Fiscal 2017 operating expense included an offset of $1.0 million for settlements awarded to Asetek in patent infringement lawsuits. The average exchange rate of USD to DKK during 2018 was 3.5% lower than the average rate in 2017. Approximately 71% of the Company's operating expense in 2018 was denominated in DKK, and therefore the weakened U.S. dollar contributed to the increased operating expense in 2018. Legal cost incurred associated with defense of existing IP and securing new IP was $2.1 million in 2018 ($1.8 million). Depreciation and amortization expense in 2018 increased by $1.3 million compared with 2017. In recent periods, the Company has added personnel resulting in higher compensation costs in 2018. The above effects were partly offset by reduced share based compensation cost of $1.3 million in 2018 ($1.6 million).

Adjusted EBITDA was $9.4 million in 2018, compared with $6.8 million in 2017. Adjusted EBITDA in 2018 represents operating income of $4.4 million, plus depreciation of $3.7 million, plus share based compensation of $1.3 million.

Foreign currency transactions in 2018 resulted in a $0.3 million gain ($1.2 million loss in 2017).

In 2018, income tax expense totaled $1.2 million ($3.0 million benefit in 2017).

Asetek earned $3.5 million total comprehensive income for 2018, compared with total comprehensive income of $5.7 million in 2017. Comprehensive income included a negative $0.2 million translation adjustment in 2018 (positive $1.3 million in 2017).

BALANCE SHEET

Asetek's total assets at the end of 2018 were $51.4 million, compared with $49.2 million at the end of 2017. The change resulted principally from revenue growth which drove operating income and growth of current assets. Cash and cash equivalents at December 31, 2018 was $18.6 million ($18.4 million in 2017).

Total liabilities decreased by $3.3 million in 2018, principally due to a reduction in trade payables associated with the timing of inventory receipts and vendor payments.

STATEMENT OF CASH FLOWS

Net cash provided by operating activities was $3.8 million in 2018 ($6.1 million provided in 2017). The cash flow was mainly attributed to operating income from the increase in revenue. The decrease in operating cash flow compared with 2017 was principally due to the increase in receivables and the pay down of short-term liabilities in 2018.

Cash used by investing activities was $3.7 million, related principally to additions in capitalized development, manufacturing equipment and software. The figure compares with $4.3 million used in 2017.

Cash provided by financing activities was $0.5 million, principally from the issuance of common shares upon the exercise of options. This compared with $2.1 million used by financing activities in 2017. Cash used in 2017 included the payment of a dividend of NOK1.00 per share.

Net change in cash and cash equivalents was positive $0.2 million in 2018, compared with positive $0.8 million in the same period last year.

MANAGEMENT REPORT

LIQUIDITY AND FINANCING

As of December 31, 2018, the Company has working capital of $25.3 million and non-current liabilities of $0.6 million. Since 2016, the Company has generated positive cash flows and net earnings. Prior to 2013, as a privately held company, Asetek financed operations principally through the issuance of convertible preferred shares. In March 2013, through its initial public offering of common shares on the Oslo Stock Exchange, the Company raised $21.4 million. In March and April 2015, the Company raised $12.2 million through the private and public issuance of shares.

While there is no assurance that the Company will generate sufficient revenue or operating profits in the future, Asetek's management estimate that the Company's capital resources are sufficient to fund operating activities in the foreseeable future, based on financial forecasts. To the extent necessary to fund expansion or other liquidity needs, management will consider offerings of debt, equity, or a combination thereof, depending on the cost of capital and the status of financial markets at that time.

HISTORICAL FINANCIAL REVIEW

FISCAL YEAR	2018	2017	2016	2015	2014
FINANCIAL HIGHLIGHTS: ($000'S)					
Revenue	67,314	58,194	50,921	35,982	20,847
Gross profit	26,172	20,969	19,750	12,412	8,710
Gross margin %	38.9%	36.0%	38.8%	34.5%	41.8%
EBITDA (unaudited)	8,109	5,187	7,119	67	(7,739)
Operating income (loss)	4,419	2,757	4,669	(2,323)	(9,510)
Finance income (expenses)	451	(1,258)	322	238	(385)
Income (loss) before tax	4,870	1,499	4,991	(2,085)	(9,895)
Income tax benefit (expense)	(1,198)	2,976	4,646	438	1,138
Net income (loss)	3,672	4,475	9,637	(1,647)	(8,757)
Acquisition of property and equipment	2,048	2,742	1,222	958	172
Sealed loop units shipped (000's) (unaudited)	1,119	1,020	949	727	**425**
YEAR-END VALUES ($000'S):					
Total assets	51,398	49,176	41,164	27,748	12,814
Total equity	38,958	33,394	28,290	18,646	7,422
Total liabilities	12,440	15,782	12,874	9,102	5,392
Employees	95	93	79	71	68
PER SHARE INFORMATION:					
Earnings per share, diluted (USD)	0.14	0.17	0.38	(0.07)	(0.62)
Share price, end of year (NOK)	40.60	105.00	53.50	18.00	19.00
Price-earnings ratio, end of year	34	75	16	-	-
KEY RATIOS:					
Average selling price per Gaming and Enthusiast unit ($)	56.3	52.2	48.2	47.0	45.5
Revenue per employee ($000's)	709	626	645	507	307
Days sales outstanding	79	80	93	85	52
Inventory turns per year	15.9	21.4	21.2	13.2	11.2

KEY RATIO:	FORMULA USED FOR KEY RATIO CALCULATIONS
Average selling price per Gaming and Enthusiast unit ($)	Total Gaming and Enthusiast units sold / Gaming and Enthusiast revenue
Revenue per employee ($000's)	Revenue / Employees
Days sales outstanding	Trade receivables / (Revenue / 365 days)
Inventory turns per year	Cost of goods sold / (beginning inventory + ending inventory) / 2)
Price-earnings ratio, end of year	Share price / NOK to USD exchange rate / Earnings per share, diluted

EXPECTATIONS FOR 2019

GAMING AND ENTHUSIAST:

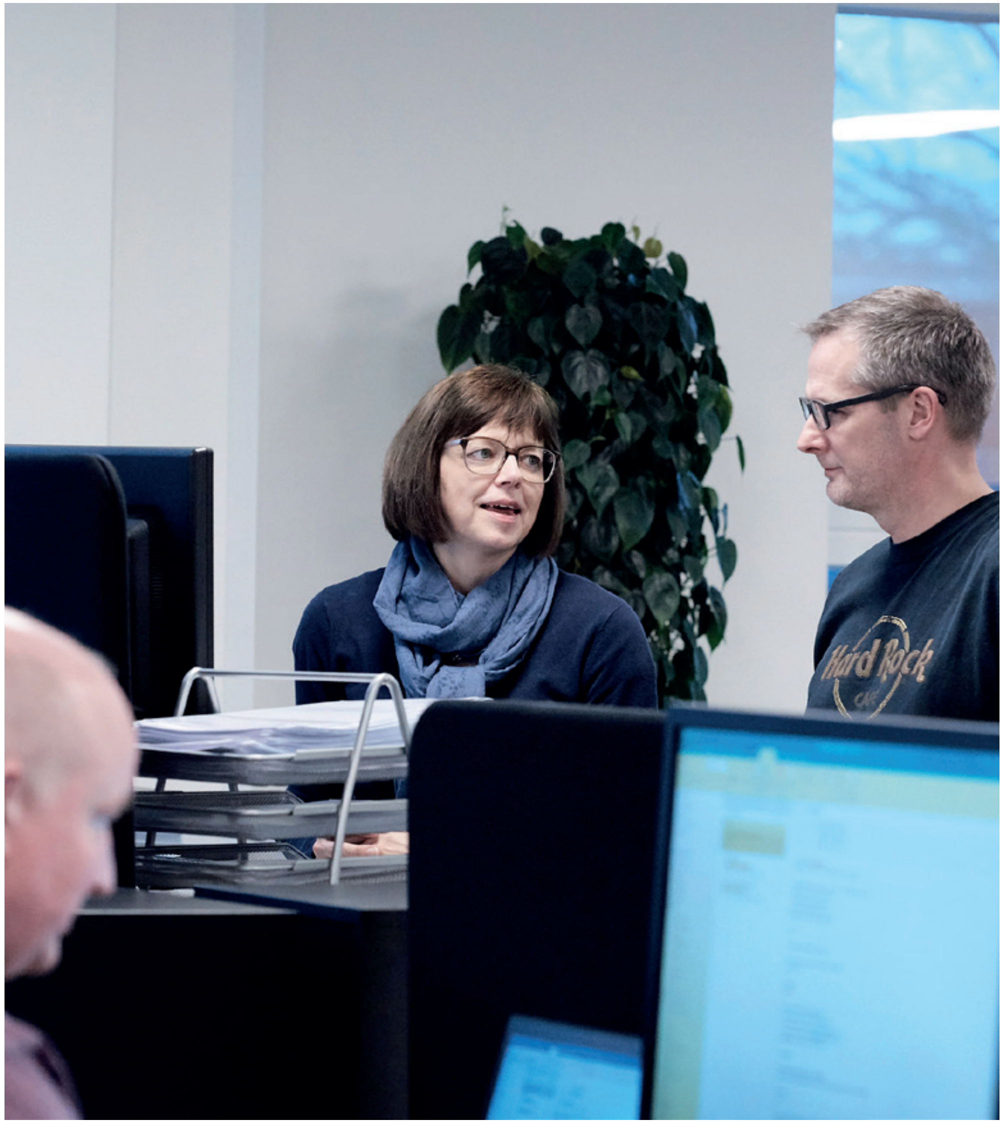
In recent years, the growing popularity of PC gaming and eSports has fueled the growth in Asetek's Gaming and Enthusiast product segments. To meet the demands of competitive gamers, the powerful machines in use today require advanced cooling for both central processing units (CPUs) and graphics processing units (GPUs). Asetek's liquid cooling solutions are well positioned to fulfill these evolving needs of both CPUs and GPUs. The Company will continue to develop existing and new products to meet end-user and OEM customer demand and to add new OEM customers within the Gaming and Enthusiast business segment. At the same time, while gaming and esports are flourishing, the current visibility into the overall PC industry outlook is reduced by uncertainties related to trade relations between U.S. and China, the impact from the Brexit process, and the economic development across other markets. Factoring in macroeconomic, market segment and Asetek-specific factors, the Company expects revenue growth in 2019 to be tempered compared with recent years strong growth. The resource consumption, as expressed in overhead expenses, is expected to increase in 2019 compared to 2018.

DATA CENTER:

Asetek's liquid cooling technology offers a strong value proposition to high-performance computing (HPC) data centers with increased performance, higher density and lower cooling costs. Asetek's strategy in this market is to increase end-user adoption within existing OEM customers, and to add new OEM customers. The Company plans to achieve this by continuing to develop and maintain its market-leading technology and leverage the successful performance achieved at its installed base of universities and government entities. Through partnerships with data center OEMs, Asetek anticipates continued growth of end-user adoption with deliveries to new HPC installations and shipments of less complex products. However, data center market adoption of liquid cooling solutions takes time and is lagging Company expectations despite its strong value proposition. The Company has decided to discontinue segment revenue guidance until the data center business more clearly develops into a meaningful business. Data center investments will also be scaled down pending such a change. There is an apparent need for public standards to trigger wider data center adoption of liquid cooling. The Company will participate in targeted campaigns to influence politicians and support wider understanding of the significant circular economy benefits enabled by liquid cooling. Segment revenue and operating results are expected to fluctuate as partnerships with OEMs are developed.

CONSOLIDATED RESULTS:

While the Gaming and Enthusiast results were in line with forecasts, the consolidated financial results for 2018 did not fully meet Management's expectations. Management expects to generate positive income on a consolidated basis while the Company continues to focus on development of new product releases in the Gaming and Enthusiast business segment and design wins to gain traction with OEM's in the Data center business segment. Overall, and taking the weighted revenue composition between the Gaming and Enthusiast and the Data center segments into consideration, the Company expects revenue growth of 0% to 10% for 2019, with minimal growth in spending. As such, management expects that the Company will report income before tax for 2019 on level with the results for 2018.



MANAGEMENT REPORT

RISK EXPOSURE AND MANAGEMENT

Asetek's potential to realize the Company's strategic and operational objectives are subject to a number of commercial and financial risks. Asetek is continuously working on identifying risks that can negatively impact the Company's future growth, activities, financial position and results as well as CSR-related risks.

Asetek conducts its business with significant focus on continuous risk monitoring and management. The overall goal of risk management is to ensure that the Company is run with a level of risk, which is in a sensible ratio to the activity level, the nature of the business, and the Company's expected earnings and equity. To the largest extent possible, Asetek tries to accommodate and limit the risks which the Company can affect through its own actions.

Insurance. It is the Company's policy to mitigate significant risk areas with commercially available insurance products. This currently includes insurance for product liability, operating material and inventory as well as compulsory coverage, which varies from country to country. Management assessments indicate that the necessary and relevant precautions have been taken to thoroughly cover insurance issues. Asetek's insurance policies and overall coverage approach are reviewed at least annually.

Below, some of the risk factors management considers as being of special importance to the Group are described in no specific order.

CSR-related risks. Please see subsequent section "Corporate Social Responsibility (CSR)" for discussion of identified risks and remedies.

Customer concentration. In 2018, two customers accounted for 39% and 21% of total revenue. In the event of a decline or loss of these significant customers, replacement of the revenue streams would be difficult for Asetek to achieve in the short term.

Competition. The markets in which the Company operates are competitive, the technological development is rapid, and the Company may in the future also be exposed to increased competition from current market players or new entrants.

Credit risk. Credit risk is the risk of a counterpart neglecting to fulfill its contractual obligations and in so doing imposing a loss on Asetek. The Group's credit risk originates mainly from receivables from the sale of products as well as deposits in financial institutions. Receivables from the sale of products are split between many customers and geographic areas. Two customers represented 32% and 23% of trade receivables at December 31, 2018. A systematic credit evaluation of all customers is conducted, and the rating forms the basis for the payment terms offered to the individual customer. Credit risk is monitored centrally.

Intellectual property defense. Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the cases have been settled or dismissed, some may continue, and new cases may be initiated. Such cases may proceed for an extended period and could potentially lead to an unfavorable outcome to Asetek. Asetek has historically incurred significant legal costs associated with litigation and may continue to do so in the future to the extent management believes it is necessary to protect intellectual property.

Manufacturing supply. Asetek relies upon suppliers and partners to supply products and services at competitive prices. Asetek's Gaming and Enthusiast products have been historically assembled by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise.

U.S. Import Tariffs. In the second half of 2018, the U.S. began imposing new tariffs on imports of goods manufactured in China, which include Asetek products. The impact from these tariffs is unclear, as the industry is proceeding in efforts to mitigate their effects. The Company is currently working to minimize the impact of the new tariffs on Asetek and its customers.

Foreign exchange rates. Substantially all of Asetek's revenue is billed in USD. However, many customers resell Asetek products to end users in countries where USD is not the transactional currency. As a result, there is a risk that fluctuations in currency will affect the cost of product to the end user and negatively impact market demand for Asetek products. Asetek estimates that about one third of its sold products ultimately are delivered in Europe or Japan, which are the two geographical areas which could have the largest potential impact due to USD fluctuation. Asetek believes that other factors in the end users' buying decision play a larger role than price fluctuation on the liquid cooling component. During 2018, the USD appreciated against both the DKK and EUR by 5% and weakened against the Japanese yen by 2%.

Asetek's raw materials are predominantly purchased with USD, from vendors whose underlying currency is CNY. The USD appreciated by approximately 5% versus the CNY during 2018. While Asetek recognizes that USD appreciation can result in negative sales price pressure for its suppliers, the Company has not seen significant reaction from its markets. In addition, Asetek believes that competing products are prone to the same exchange rate scenarios as Asetek.

A significant portion of Asetek's overhead costs are incurred in DKK. As a result, fluctuations in USD vs. DKK will continue to have an influence on results of operations and financial position. The Group has not entered into any forward exchange instruments.

Research and development, product innovation, market development. The Company's future success, including the opportunities to ensure growth, depends on the ability to continue developing new solutions and products adapted to the latest technology and the clients' needs as well as improving existing solutions and market position. As such, the Company develops new releases on a regular basis, with emphasis on higher performance, improved efficiency and noise-reduction. Providing new and innovative applications for Asetek's cooling technology is also a focus, as evidenced by the cooling products released during 2018. Asetek has in recent years increased its focus and investments on building the market for data center liquid cooling products.

Projects and contracts. It is important to Asetek's overall success that development projects are executed at high quality and at predetermined timeframes and cost prices. Risks are attached to the sale, analysis and design, development and initial manufacturing phases. Asetek has carefully defined the individual phases and the activities contained therein, with a view to active risk management and efficient implementation. Through project reviews and ongoing analyses before, during, and after initiation, Asetek works to ensure that agreements are adhered to and that revenue and margins are as planned.

Taxation. The tax situation of the Company is complex. In connection with its initial public offering in 2013, Asetek moved its Parent company from the U.S. to Denmark. As a result, both U.S. and Danish tax authorities may claim that the Company is tax liable to both countries. The tax treaties in place between the two countries may not fully resolve this potential conflict, which has increased in importance as the Company increases profitability. The Company is currently in the preparatory phase of working with the tax authorities of Denmark and U.S. to possibly resolve this issue.

Employee relations. Asetek is a knowledge-intensive Company and in order to continuously offer optimal solutions, develop innovative products, and ensure satisfactory financial results, it is necessary to attract and develop the right employees. Asetek has the goal of being an attractive workplace and achieves this through various programs including an option incentive program, attractive working conditions, and corporate social responsibility (CSR) policies described in the following section of this report. The Company seeks to support a Company culture founded on individual responsibility and performance as well as team accomplishment.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR Policy. Asetek seeks to be a good corporate citizen in everything that it does, and therefore has combined its operating principles into one framework policy of Corporate Social Responsibility (CSR). This policy encompasses all areas of Asetek's operations and its aim is to provide a set of guidelines, standards and practical guidance for the Company's employees in conducting business globally. Important aspects of the CSR policy include the following, which are referenced in subsequent paragraphs in this section:

// Code of conduct

// Anti-corruption and bribery

// Internal environment, knowledge resources and employee relations

// Equal opportunities

// External environment

// Adherence to human rights principles

CSR Policy and risk management. Maintenance of, and adherence to the CSR policy is important in mitigating several aforementioned business risks including manufacturing supply, research and development, product innovation, project & contract management, and employee relations (refer to the prior section titled "Risk exposure and management").

The Company's CSR policy can be found at: https://www.asetek.com/media/2221/corporate-social-responsibility-policy.pdf

Code of conduct. Asetek's Code of Business Conduct and Ethics is the general ethical policy for business conduct to promote global ethical business practices and protect Asetek against corruption and other unethical business behavior. Per the policy, Asetek employees, officers, directors and independent contractors are expected to perform their duties ethically, honestly and with integrity; and communicate in good faith any concerns regarding improper business practices or conflicts of interests, if observed. The business conduct guidelines and policy can be found at http://asetek.com/investor-relations/corporate-governance/ethical-guidelines.aspx

Anti-corruption and bribery. As documented in its CSR Policy, Asetek will not tolerate corruption, money laundering, bribery or other illegal or unethical business activity. The Company's performance and competitiveness are strengthened solely through lawful conduct. The Group's anti-corruption position is clearly communicated to all employees at at least annually, and thus also during 2018. Furthermore, Asetek has implemented an Ethics Website operated by a third-party company. Via the website, all stakeholders can keep themselves informed about Asetek's policies as well as report any concern to the Company's leadership. No reports related to alleged infringing activities have been received during 2018.

Internal environment and knowledge resources. Asetek recognizes that its employees are its key assets and it is committed to maintaining a stimulating working environment that offers opportunity for both personal and professional development.

MANAGEMENT REPORT

The Company's CSR Policy on Employment reinforces the framework established by the Organization for Economic Cooperation and Development (OECD), encouraging openness, sustainability and respect for employee rights. The Company maintains a team-oriented culture where all employees have the opportunity to contribute significantly to the success of the Company. This is also necessary to continue to attract and retain highly qualified employees within the computer industry. Asetek welcomes applications for employment from all sectors of the community and strives to promote equal opportunity of employment to all. The Group maintains a positive working environment and sick leave is not significant. During 2018, total employee attrition was 18%, which is comparable with the global average of a recent Radford report on turnover rates at technology companies. Of Asetek's employees at December 31, 2018, 29% have been continuously employed by the Company for five years or longer. No working accidents or injuries occurred in 2018. During 2018, the work on internal environment continued to focus on enhancing the collaboration between Asetek's various global locations and cultures. The work resulted in improved collaboration regarding quality assurance of products. To enable the Company to support initiatives aimed at improving working conditions, the Company monitors sick leave by job type.

Equal opportunities. The Board of Directors set a goal for Asetek to have at least 15% female representation at board and management level by 2018. At the end of 2018, the Board of Directors consisted of 100% male members. Therefore, the Company did not meet this goal in 2018. During 2018 the Chairman of the Board retired, and one other Board member did not make himself available for re-election. On January 14, 2019, the Board elected Ms. Maria Hjorth to the Board. After Ms. Hjorth's election in 2019, the Board consists of 75% male and 25% female members. When evaluating new potential board members, the Board of Directors encourages female candidates, while at the same time continues to search for relevant experience specific to Asetek. At other management levels, there is 14% female representation at the end of 2018, which is a reduction from the year before (18%). During 2018 the Company has continued to actively encourage women to apply for open positions as well as it has continued its communication with educational institutions which trains both male and female candidates. The work to increase the female representation continues into 2019.

External environment. Asetek Group operations' effect on the environment is minimal and is typical for a supplier of computer components. As such, the Company does not have a policy on environment and climate impact. The principal source of strain on the environment from the business is related to shipment of inventory, which is conducted in accordance with normal routine commerce.

Asetek's principal manufacturing operations are outsourced to a commercial manufacturer in China, which is continuously monitored on various factors relating to the environment and other social responsibilities. The Company monitors the consumption of select resources at its manufacturing partner, enabling an ongoing discussion about how to design manufacturing processes that minimize the use of environmental resources.

Resource Consumption	2018	2017
Electricity consumption per Gaming & Enthusiast unit	0.28 kWh	0.30 kWh

Internally, the Company is committed to achieving continuous improvement in environmental performance. Asetek takes great care to ensure that the materials and liquids used are not harmful to the environment. In 2018, the Company increased its focus on minimizing waste materials, including the improvement of sort, reuse and recycle procedures to reduce the impact of waste on the external environment.

Adherence to Human Rights Principles. Asetek supports the fundamental principles of EICC (Electronic Industry Citizenship Coalition) on human rights, employees' rights, child labor, health and safety, environment and anticorruption. The Company's CSR Policy includes standards of conduct that include the fair and honest treatment of employees, respecting human rights and the interests of employees, customers and third parties.

The Company requires that suppliers respect and conform to the same human rights principles. Asetek's CSR Policy specifies its commitment to obtaining and retaining goods and services while at the same time ensuring they are from sources which have not jeopardized human rights, safety or the environment. Asetek periodically validates via its supplier review and evaluation process that its suppliers conform to the principles. During 2018, a questionaire was sent to suppliers as part of the of the annual supplier audit. The principles can be found at http://www.eicc.info/eicc_code.shtml The Company's work in 2018 primarily focused on working with and monitoring new suppliers.

Transparency and credibility. Asetek is committed to show complete openness towards shareholders, customers, employees, suppliers and other stakeholders.

CORPORATE GOVERNANCE

THE WORK OF THE BOARD OF DIRECTORS

Asetek's management model and organization are adapted continuously to ensure the Company is equipped to manage all obligations to shareholders, customers, employees, authorities and other stakeholders to the utmost. In this process, Asetek uses the corporate governance recommendations from NASDAQ Copenhagen as an important source of inspiration. The recommendations can be found at http://www.nasdaqomx.com/listing/europe/surveillance/copenhagen/corporategovernance

The Board of Directors is fundamentally in full agreement with Danish Committee on Corporate Governance recommendations for good company governance. Asetek endeavors to follow the relevant recommendations for the Company, which support the business and ensure value for the Company's stakeholders. The statutory report on Corporate Governance, cf. section 107b of the Danish Financial Statements Act, is available on the Company's website: https://www.asetek.com/media/2948/scgs2018.pdf

Danish Recommendation for Corporate Governance	2018	2017
Complies with recommendations	42	40
Partially complies with recommendations	3	5
Does not comply with recommendations	2	7

Dialogue between the Company and its shareholders. The communication between Asetek and shareholders primarily takes place at the Company's Annual General Meeting and via company announcements. Asetek shareholders are encouraged to subscribe to the e-mail service to receive company announcements, interim management statements, interim reports and annual reports as well as other news via e-mail.

The general meeting. The General Meeting has the final authority over the Company. The Board of Directors emphasize that shareholders are given detailed information and an adequate basis for the decisions to be made by the General Meeting.

The General Meeting elects the Board of Directors, which currently consists of four members. The board members are elected for one year at a time with the option for re-election.

Amendment of Articles of Association. Unless otherwise required by the Danish Companies Act, resolutions to amend the Articles of Association must be approved by at least 2/3 of the votes cast as well as at least 2/3 of the voting share capital represented at the General Meeting.

Board responsibilities. The Board of Directors' main tasks include participating in developing and adopting the Company's strategy, performing the relevant control functions and serving as an advisory body for the executive management. The Board reviews and adopts the Company's plans and budgets. Items of major strategic or financial importance for the Company are items processed by the Board. The Board is responsible for hiring the CEO and defining his or her work instructions as well as setting of his or her compensation. The Board periodically reviews the Company's policies and procedures to ensure that the Group is managed in accordance with good corporate governance principles, upholding high ethics.

Financial reporting. The Board of Directors receives regular financial reports on the Company's business and financial status.

Notification of meetings and discussion of items. The Board schedules regular meetings each year. Ordinarily, the Board meets eight to ten times a year, of which four are quarterly update teleconferences. The meetings are typically conducted at either the facility in Aalborg, Denmark or in San Jose, California or via telephone. Additional meetings may be convened on an ad hoc basis. During 2018, the Board met seven times.

All Board members receive regular information about the Company's operational and financial progress in advance of the scheduled Board meetings.

The Board members also regularly receive operations reports and participate in strategy reviews. The Company's business plan, strategy and risks are regularly reviewed and evaluated by the Board. The Board Members are free to consult the Company's senior executives as needed. Ordinarily, the Chairman of the Board proposes the agenda for each Board meeting. Besides the Board Members, Board meetings are attended by the Executive Board. Other participants are summoned as needed. The Board approves decisions of particular importance to the Company including the strategies and strategic plans, the approval of significant investments, and the approval of business acquisitions and disposals.

Conflicts of interest. In a situation involving a member of the Board personally, this member will exclude him or herself from the discussions and voting on the issue.

Use of Committees. Currently, the Company has a Nomination Committee, an Audit Committee and a Compensation Committee.

// The Nomination Committee is elected directly by the General Meeting. The Committee consists of three members and must be independent from the Board of Directors and the management, however, it is recommended that the chairman of the Board of Directors is a member. The tasks include proposing candidates for the Board of Directors, propose remuneration for the Board of Directors as well as perform the annual assessment of the Board of Directors. Members: Ib Sønderby (chairman), Scott Pagel and Jørgen Smidt. The Committee met five times during 2018.

// The Audit Committee is elected among the members of the Board of Directors and has responsibilities related to financial reporting, the independent auditor, internal reporting and risk management.

Our solution takes up half the rack space of comparable solutions

NEW DATA CENTER HYBRID DOES NOT REQUIRE PLUMBING

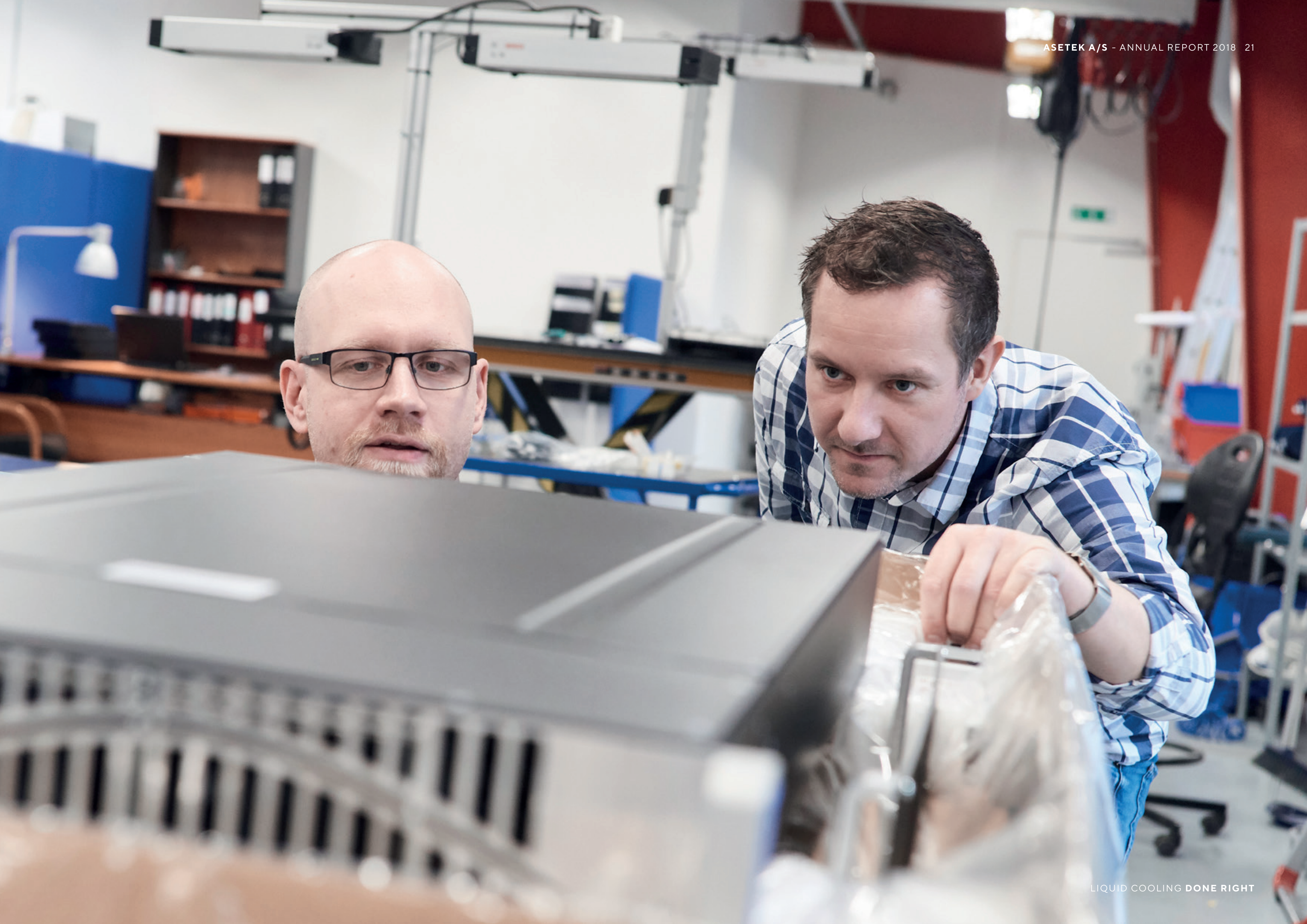
Can a customer benefit from Asetek's liquid cooling in his datacenter or server rack if he does not have water flow to the datacenter? Yes, soon he can, because in early 2019, Asetek expects to launch a new product especially for customers who want to utilize liquid cooling but have no plumbing in the datacenter. These customers – both OEM's and end users – have up until now been confined to using air cooling.

"Our optimal datacenter solution in terms of energy savings and reuse of waste heat continues to be our RackCDU, which has an ROI in saved power expenses of less than one year. But that solution requires water pipes throughout the datacenter, which can be a significant extra investment for the smaller and mid-sized enterprise", explains Torben Schaltz, Asetek engineer and program manager for the InRackLAAC product line. LAAC is short for "Liquid Assisted Air Cooling".

If the customer does not find it feasible to invest in plumbing infrastructure up front, the datacenter hybrid InRackLAAC is a good alternative that combines some of the significant benefits of the Asetek CPU- and datacenter solutions. Specifically, this new solution works because it circulates water in closed loops between the servers and the Asetek units, from which the heat is emitted by use of traditional air cooling.

This means that one can seamlessly install the required number of Asetek units, cooling the ever-higher performance and thus warmer processors in the servers with water. The advantage of the new hybrid is that the InRackLAAC enables the use of the newest processors without having to change the datacenter infrastructure.

"Compared to the competitors' solutions, Asetek's water cooling solution does not require as much water pressure or as much space. Our solution takes up half the rack space of comparable solutions, so there can be room for more servers," says Torben. "With the InRackLAAC solution, the customer can get a feel for Asetek's liquid cooling solution without the significant infrastructure investment. And then determine, when the time is right, if he should go all the way and arrange his next data center's infrastructure ideally with access to water."



The Committee consists of two shareholder-elected Board members. The other Board members are entitled to attend if they so desire. Members: Chris Christopher and one open seat. The Committee met four times during 2018.

// The Compensation Committee has responsibilities related to developing proposals for the applicable remuneration policy and execution of the Management Board. Members: Jim McDonnell and Jørgen Smidt. The Committee met four times during 2018.

The Board's self-evaluation. The Board's composition, competencies, working methods and interaction are discussed on an ongoing basis and evaluated formally on an annual basis. In this connection, the Board also evaluates its efforts in terms of corporate governance.

The composition of the Board is considered appropriate in terms of professional experience and relevant special competences to perform the tasks of the Board of Directors. The Board of Directors continuously assesses whether the competencies and expertise of members need to be updated. At least half of the members elected by the General Meeting are independent persons, and none of the Board members participates in the day-to-day operation of the Company.

As of December 31, 2018, the Board had two open seats, one of which was subsequently filled: On January 14, 2019, in an Extraordinary General Meeting, the Board elected Ms. Maria Hjorth to the Board of Directors. As part of Ms. Hjorth's role, she will serve on the audit committee.

A comprehensive list of other management positions held by the Board members can be found in Note 24.

Risk management. Refer to the Risk Exposure and Management section of the Management Report as well as Note 3 of the consolidated financial statements.

THE BOARD'S AUTHORIZATION TO ISSUE SHARES

At the General Meeting held on August 13, 2013 the Board was authorized to issue shares with a nominal value of up to DKK 80,000 for the period until August 14, 2018 in connection with employee warrant programs.

At the Board of Directors meeting on April 23, 2014 warrants permitting subscription of up to 118,210 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 40.10 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of the prior day. The warrants were issued to employees and Board members.

At the Board of Directors meeting on August 12, 2014 warrants permitting subscription of up to 32,970 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 33.90 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of the prior day. The warrants were issued to employees and Board members.

At the General Meeting held on April 30, 2015, the Board was authorized to issue new shares under the warrant program up to a nominal value of DKK 200,000 through April 30, 2020.

At the Board Meeting on August 11, 2015, warrants permitting subscription of up to 700,000 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 10.50 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of August 12, 2015. The warrants were issued to employees and Board members.

At the Board Meeting on April 29, 2016, warrants permitting subscription of up to 600,000 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 19.50 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of April 28, 2016. The warrants were issued to employees and Board members.

At the Board Meeting on April 25, 2017, warrants permitting subscription of up to 509,687 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 76.25 per share were issued. The exercise price was established as the share price ("closing price") for the Company's shares as of April 25, 2017. The warrants were issued to employees and Board members.

At the Board Meeting on July 7, 2017, warrants permitting subscription of up to 106,999 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 113.00 per share were issued. The exercise price was established as the share price ("closing price") for the Company's shares as of July 7, 2017. The warrants were issued to employees.

At the General Meeting held on April 25, 2018, the Board was authorized to acquire the Company's own shares.

At the Board Meeting on October 31, 2018, the Board introduced an employee stock option program to replace the warrant program previously in place. The program is governed by the Company's general guidelines for equity incentive programs as adopted on August 14, 2013. Upon adoption of the plan, options permitting purchase of up to 378,500 shares of a nominal value of DKK 0.10 and at an exercise price of NOK 46.30 per share were issued. The exercise price was established as the share price ("closing price") for the Company's share as of October 31, 2018.

REMUNERATION OF THE BOARD OF DIRECTORS

Board members representing their Company's ownership interests are not compensated for their service, and the significant travel time endured by all Board members is not specifically compensated. Independent board members received a combination of cash compensation and long termed stock option-based incentives during 2017. Beginning in 2018, the Board no longer receives warrants or options as a component of remuneration. Please see Note 24 for further details.

REMUNERATION OF THE EXECUTIVE STAFF

The Remuneration Committee recommends to the Board, and the Board sets, the terms of employment of the members of the Management Board. Each year, the Remuneration Committee undertakes a review of salary and other remuneration to the CEO as well as for other members of the Management Board.

A summary of the agreements between the Company and its management board members pertaining to termination can be found in Note 6.

The option program and the allocation of options to the employees are decided upon by the Board of Directors.

AUDITORS

Asetek A/S first appointed its current auditors, Price-WaterhouseCoopers (PwC) for the financial year 2013. PwC has been reappointed annually by resolution of the Annual General Meeting for a total consecutive period of six years up to and including the financial year 2018.


ASETEK

STATEMENT BY MANAGEMENT

The Executive Board and the Board of Directors have today considered and adopted the Annual Report of Asetek A/S for the financial year January 1 to December 31, 2018. The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

In our opinion, the Consolidated Financial Statements and Parent company Financial Statements give a true and fair view of the financial position at December 31, 2018 of the Group and the Parent company and of the results of the Group and Parent company operations and cash flows for 2018.

In our opinion, Management's Report includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Aalborg, Denmark

March 4, 2019

EXECUTIVE BOARD:

André Sloth Eriksen
Chief Executive Officer

Peter Dam Madsen
Chief Financial Officer

BOARD OF DIRECTORS:

Chris J. Christopher

Jim McDonnell

Jørgen Smidt

Maria Hjorth

We are aware of the branding value of creating a serious elite training environment, such as Counter-Strike, League of Legends, Simracing etc.

ASETEK'S NEW ESPORTS ACADEMY AND GIVING BACK TO THE COMMUNITY

Asetek should be more directly on the mind of the gamer, who often – without knowing it today – has a built-in Asetek liquid cooling component in his or her gaming computer. The road there – as Asetek management knows – runs through eSport, which is receiving exploding international attention. Specifically, in recent months Asetek has been building an in-house eSports Academy, which will be the base for local eSports athletes who want to train in the best facilities. In addition, the academy will be the focal point for several international tournaments.

"We are aware of the branding value of creating a serious elite training environment, such as Counter-Strike, League of Legends, Simracing etc. At the same time, we would also like to remind the gamer community around the world that Asetek is a company born out of computer enthusiasts and gamers with an electronic pulse, as the gamers themselves. In terms of marketing, we are reaching back towards the gamer identity and will not be seen only as a dusty supplier to the big PC manufacturers", says Asetek's technology evangelist Dennis Hampe, who has marketing responsibility for the Academy project.

STATE-OF-THE-ART GAMING ENVIRONMENT

After recent extensive planning, a large and well-equipped gamer room – the Academy – has been created in Asetek's headquarters in Aalborg, with nearly a dozen gaming stations, including 10 state-of-the-art Alienware Aurora R8 computers and 5 racing simulators from Fanatec. In addition, state-of-the-art Philips Hue lighting has been installed, along with top-quality green gaming chairs and desks from Swedish Arozzi. There will be access to the Academy around-the-clock with key fobs, and the 100 square-meters room will also be lounge-furnished with sofas and a café, where one can relax with eSports on the big screen TV. The gamers can also work on tactics and physical training exercises and share experiences, for example, regarding the best "overclocking" settings for the eSports athletes and teams.

LOOKING FOR A HARD-WORKING TEAM

Asetek is also seeking a talented gaming team! Currently, Dennis Hampe is looking for an established, talented and elite team of 5 to 7 ambitious players residing near Aalborg. In the search, Asetek hopes to find the right combination of dedicated, team-oriented gamers who over time and in the optimal framework, can develop into a professional Asetek team that can eventually play in the biggest, most attention-creating international tournaments. "The important thing is that Asetek would like to facilitate the framework but not be relied upon for training and financial support. A well-managed group of hard-working upcoming talents aged 15 to 30 would be perfect. It would be intriguing if we can eventually develop Asetek's own serious response to giants such as Astralis, Team Liquid and Invictus Gaming", continues Dennis.

Of course, in addition to the elite team, Asetek's own dedicated players among the employees would have access to the academy as a motivational perk.

WORLDWIDE TOURNAMENT FOR THE GAMING COMMUNITY

Asetek plans to create a gaming tournament where talented teams from around the world can sign up. Initially, the idea is that the teams play online from home until the winners in the various parts of the world are determined. The prize for the winning teams in the different regions is then an invitation for an all-expenses-paid trip to Aalborg to play the final rounds at the Academy, against the other regional winners.

"Resulting in new international gamer celebrities and the ultimate WOW effect," as Dennis puts it.


Asetek
Asetek
eSports Academy
Asetek

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ASETEK A/S

OUR OPINION

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited. The Consolidated Financial Statements and Parent Company Financial Statements of Asetek A/S for the financial year 1 January to 31 December 2018 comprise statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "Financial Statements".

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment. We were first appointed auditors of Asetek A/S on 22 January 2013 for the financial year 2013. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 6 years including the financial year 2018.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2018. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Capitalization of development costs

Asetek A/S continuously develops new solutions and products adapted to the latest technology and the clients' needs as well as improving existing solutions and market position.

As described in note 14 USD 2,414k of internal development costs have been capitalized within Intangible Assets.

We focused on this area due to the size of the internal costs capitalized, and the fact that there is judgement involved in assessing whether the criteria set out in the accounting standards for capitalization of such costs have been met, particularly:

// The technical feasibility of the project;
// The likelihood of the project delivering sufficient future economic benefits; and
// That costs capitalized are relevant to the project and in conjunction with IAS 38

In the light of the development of new solutions and products adapted to the latest technology, we also focused on whether the carrying value ongoing and completed projects was impaired.

How our audit addressed the key audit matter

We obtained a breakdown, by value, of all individual development projects capitalized in the period and reconciled this to the amounts recorded in the general ledger.

We tested the largest capitalized development projects in 2018 together with a sample of smaller projects from the remaining population, as follows:

// We obtained business cases from management including description of the development project, feasibility analysis, budgeted costs and budgeted revenue. This also included descriptions on how the specific requirements of the relevant accounting standards and other guidance, most notably IAS 38 were met.

// We discussed the assumptions for budgets and compared historical budgets with realized amounts to challenge management's explanations.

// We obtained explanations from management of why the projects are impaired or not. We challenged both management and the project manager as to whether the development of new solutions and products superseded or impaired any of the existing assets on the balance sheet. We also applied our own understanding of both new and existing projects that is no longer in use or its life was shortened by any development activity.

To determine whether costs were directly attributable to projects, we obtained listings of hours worked on individual projects and compared a sample of the individual hours recorded with the capitalized hours. We also checked the hours charged equated to the value of costs capitalized, by applying the approved salary rates per employee to the timesheet hours. We reconciled specifications of the basis used for capitalized overheads and discussed the appropriateness of included costs in respect of relevant accounting rules and guidance.

Furthermore, we compared a sample of the direct costs capitalized with external vendor invoices.

Valuation of deferred tax assets
As explained in note 11, Asetek has recognized USD 7,458k as deferred tax assets. Tax losses from previous years amounts to USD 8,673k of the total recognized deferred tax asset. The tax losses can be carried forward against future taxable income. The tax losses relates to losses realized in Denmark and the U.S.

We focused on this area due to the size of the deferred tax asset and the size of the total tax losses. Furthermore, there is judgement involved in assessing whether the criteria set out in the accounting standards (IAS 12) for recognising deferred tax assets have been met, particularly the probability that future taxable profit will be available, against which the unused tax losses can be utilised.

Reference is made to note 11 in the Consolidated Financial Statements.

How our audit addressed the key audit matter
We assessed the management's valuation of the deferred tax assets and reconciled this to the amounts recorded in the financial statements.

We challenged and applied professional scepticism to the judgments and estimates made by management in relation to the deferred tax assets through the following audit procedures:

// We received the Group's budgets for the period 2019-2023. We evaluated and challenged the assumptions made by management by comparing budgets to realized figures and realized growth for 2018.

// We compared the budgets with the deferred tax asset recognised and challenged management on their plan for utilising the tax losses.

// We utilised our tax specialists in order to ensure compliance to tax rules in respect of determining the value of the deferred tax asset.

STATEMENT ON MANAGEMENT'S REVIEW
Management is responsible for Management's Review. Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

// Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

// Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

AUDITOR'S REPORT

// Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

// Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

// Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

// Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, 4 March 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Henrik Trangeled Kristensen
State Authorised Public Accountant
mne23333

Henrik Berring Rasmussen
State Authorised Public Accountant
mne34157

PROFIT & LOSS

ASETEK A/S - CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017

(USD 000's)	Note	2018	2017
Revenue	4	67,314	58,194
Cost of sales	8	(41,142)	(37,225)
GROSS PROFIT		**26,172**	**20,969**
Research and development		(4,764)	(4,220)
Selling, general and administrative		(16,989)	(14,905)
Other income		-	913
TOTAL OPERATING EXPENSES	8	**(21,753)**	**(18,212)**
OPERATING INCOME		**4,419**	**2,757**
Foreign exchange (loss) gain	9	342	(1,239)
Finance income	9	205	84
Finance costs	9	(96)	(103)
TOTAL FINANCIAL INCOME (EXPENSES)		**451**	**(1,258)**
INCOME BEFORE TAX		**4,870**	**1,499**
Income tax (expense) benefit	10, 11	(1,198)	2,976
INCOME FOR THE YEAR		**3,672**	**4,475**
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments		(169)	1,253
TOTAL COMPREHENSIVE INCOME		**3,503**	**5,728**
INCOME PER SHARE: (IN USD)			
Basic	12	0.14	0.18
Diluted	12	0.14	0.17

All operations are continuing

The Notes on the following pages are an integral part of these consolidated financial statements.

BALANCE SHEET

ASETEK A/S - CONSOLIDATED BALANCE SHEET

As of December 31, 2018 and 2017

(USD 000's)	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	14	2,414	2,754
Property and equipment	15	4,103	3,856
Deferred income tax assets	11	7,458	7,778
Other assets		309	794
TOTAL NON-CURRENT ASSETS		**14,284**	**15,182**
CURRENT ASSETS			
Inventory	17	2,862	2,316
Trade receivables and other	16	15,625	13,280
Cash and cash equivalents		18,627	18,398
TOTAL CURRENT ASSETS		**37,114**	**33,994**
TOTAL ASSETS		**51,398**	**49,176**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	18	422	419
Retained earnings		37,704	31,976
Translation and other reserves		832	999
TOTAL EQUITY		**38,958**	**33,394**
NON-CURRENT LIABILITIES			
Long-term debt	19	641	816
TOTAL NON-CURRENT LIABILITIES		**641**	**816**
CURRENT LIABILITIES			
Short-term debt	19	980	1,051
Accrued liabilities		2,185	2,432
Accrued compensation and employee benefits		1,512	1,335
Trade payables		7,122	10,148
TOTAL CURRENT LIABILITIES		**11,799**	**14,966**
TOTAL LIABILITIES		**12,440**	**15,782**
TOTAL EQUITY AND LIABILITIES		**51,398**	**49,176**

The Notes on the following pages are an integral part of these consolidated financial statements.

EQUITY

ASETEK A/S - CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended December 31, 2018 and 2017

(USD 000's)	Share capital	Translation reserves	Other reserves	Retained earnings	Total
EQUITY AT DECEMBER 31, 2016	**417**	**(248)**	**(9)**	**28,130**	**28,290**
Total comprehensive income for 2017					
Income for the year	-	-	-	4,475	4,475
Foreign currency translation adjustments	-	1,253	-	-	1,253
Total comprehensive income for 2017	-	1,253	-	4,475	5,728
Transactions with owners in 2017					
Shares issued	2	-	3	684	689
Dividends	-	-	-	(2,910)	(2,910)
Share based payment expense	-	-	-	1,597	1,597
Transactions with owners in 2017	2	-	3	(629)	(624)
Equity at December 31, 2017	**419**	**1,005**	**(6)**	**31,976**	**33,394**
Total comprehensive income for 2018					
Income for the year	-	-	-	3,672	3,672
Foreign currency translation adjustments	-	(169)	-	-	(169)
Total comprehensive income for 2018	-	(169)	-	3,672	3,503
Transactions with owners in 2018					
Shares issued	3	-	2	780	785
Share based payment expense	-	-	-	1,276	1,276
Transactions with owners in 2018	3	-	2	2,056	2,061
Equity at December 31, 2018	**422**	**836**	**(4)**	**37,704**	**38,958**

The Notes on the following pages are an integral part of these consolidated financial statements.

CASH FLOWS

ASETEK A/S - CONSOLIDATED CASH FLOW STATEMENT

For the years ended December 31, 2018 and 2017

(USD 000's)	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) for the year		3,672	4,475
Depreciation and amortization	14, 15	3,690	2,430
Finance income	9	(205)	(84)
Finance costs	9	96	103
Income tax expense (income)	10, 11	1,198	(2,976)
Impairment of intangible assets		-	5
Cash receipt (payment) for income tax		(118)	(43)
Share based payments expense	7	1,276	1,597
Changes in trade receivables, inventories, other assets		(3,502)	693
Changes in trade payables and accrued liabilities		(2,264)	(112)
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES		**3,843**	**6,088**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to intangible assets	14	(1,745)	(2,426)
Purchase of property and equipment	15	(1,914)	(1,872)
NET CASH USED IN INVESTING ACTIVITIES		**(3,659)**	**(4,298)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Funds drawn against line of credit		(6)	295
Proceeds from issuance of share capital	18	782	686
Payment of dividends	18	-	(2,910)
Principal payments on finance leases		(321)	(162)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES		**455**	**(2,091)**
Effect of exchange rate changes on cash and cash equivalents		(410)	1,089
NET CHANGES IN CASH AND CASH EQUIVALENTS		**229**	**788**
Cash and cash equivalents at beginning of period		18,398	17,610
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**18,627**	**18,398**
SUPPLEMENTAL DISCLOSURE - NON-CASH ITEMS			
Equipment acquired under finance lease	15	$ 134	$ 868

The Notes on the following pages are an integral part of these consolidated financial statements.

NOTES

1. GENERAL INFORMATION

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets liquid cooling solutions used in personal computers, servers and data centers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is based in Aalborg, Denmark with offices in USA, China and Taiwan. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASETEK'.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost convention, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the supplementary Danish information requirements for class D publicly listed companies.

2.2. Consolidation

The consolidated financial statements comprise the Company and its consolidated subsidiaries. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from the intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

2.3. Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company's operations in the United States of America, Denmark and China are the U.S. dollar, Danish kroner, and Chinese Yuan Renminbi, respectively. The consolidated financial statements are presented in U.S. dollars, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as operating expense in the income statement in foreign exchange (loss)/gain.

Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

// Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

// Income and expenses for each income statement are translated at average exchange rates;

// All resulting exchange differences are recognized in other comprehensive income

2.4. Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided over the estimated useful lives of the depreciable assets, generally three to five years, using the straight-line method. The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized as other income or expense in the consolidated income statement. Property and equipment is grouped as follows:

Group	Estimated Useful Life
Leasehold improvements	Lesser of 5 years or lease term
Plant and machinery	5 years
Tools, equipment, fixtures	3 to 5 years

NOTES

2.5. Research and development
Research costs are expensed as incurred. Costs directly attributable to the design and testing of new or improved products to be held for sale by the Group are recognized as intangible assets within development projects when all of the following criteria are met:

// It is technically feasible to complete the product so that it will be available for sale;

// management intends to complete the product and use or sell it;

// there is an ability to use or sell the product;

// it can be demonstrated how the product will generate probable future economic benefits;

// adequate technical, financial and other resources to complete the development and to use or sell the product are available; and

// the expenditures attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the product include the employee costs associated with development. Other development expenditures that do not meet these criteria are recognized as expense when incurred. Development costs previously recognized as expense are not recognized as an asset in a subsequent period. Development costs recognized as assets are amortized on a straight-line basis over their estimated useful lives, which generally range between three and forty-eight months. Amortization expense related to capitalized development costs is included in research and development expense.

2.6. Impairment of non-financial assets
Assets that are subject to amortization are reviewed for impairment annually, and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of 1) an asset's fair value less costs to sell or 2) its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that previously suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7. Financial assets
Recognition and Measurement. The Group determines the classification of its financial assets at initial recognition. Financial assets within the scope of IFRS 9 Financial Instruments are classified as follows:

// 'Amortized cost' are financial assets representing contractual cash flows held for collection, where such cash flows solely represent payment of principal and interest.

// 'Fair value'. All other financial assets, representing other debt and equity instruments that do not meet the 'amortized cost' criteria, are recognized at fair value. All fair value movements on financial assets are taken through the income statement, or for certain debt instruments that qualify, through other comprehensive income.

For all years presented, the Group's financial assets are all classified as 'amortized cost'.

Impairment of financial assets. For financial assets carried at amortized cost, the Group measures at the end of each reporting period the expected credit losses to be incurred for a financial asset or group of financial assets. The Company applies the simplified approach for trade receivables and measures the expected credit losses at the lifetime expected loss. The Company utilizes historical experience, evaluation of possible outcomes, current conditions and forecasts of future economic conditions to determine expected credit losses incurred, assessing both specific receivables and groups of receivables that are not considered impaired. Evidence may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.8. Financial liabilities
Recognition and measurement. Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, or other liabilities. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognized initially at fair value less, in the case of other liabilities, directly attributable transaction costs. The measurement of financial liabilities depends on their classification as follows:

// 'Financial liabilities at fair value through profit or loss' are liabilities entered into that do not meet the hedge accounting criteria as defined by IFRS 9. Gains or losses on liabilities held for trading are recognized in profit and loss. At December 31, 2018, the Company has no financial liabilities measured at fair value through profit and loss.

// 'Other liabilities' – After initial recognition, interest bearing debt is subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Offsetting of financial instruments. Financial assets and financial liabilities are offset, and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.9. Inventories

Inventories are stated at the lower of actual cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence, or impaired balances.

2.10. Trade receivables

Trade receivables are amounts due from customers for product sold in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for expected credit losses. If collection is expected in one year or less, trade receivables are classified as current assets.

2.11. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits with banks, overdrafts and other short-term highly liquid investments with original maturities of three months or less.

2.12. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.13. Share-based payments

The Company issues options (or warrants) that allow management and key personnel to acquire shares in the Company. Through equity-settled, share-based compensation plans, the Company receives services from employees as consideration for the granting of equity options to purchase shares in the Company at a fixed exercise price. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period). Options generally vest over three or four years, subject to the option holder's continued employment by the Company. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions as set forth in the share option program. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. At each reporting date, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognized in the Statement of Comprehensive Income, with a corresponding adjustment to equity.

2.14. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15. Revenue recognition and other income

Revenue represents sale of the Group's products to customers which are principally resellers and original equipment manufacturers. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, sales tax, returns and after eliminating sales within the Group.

The Group's revenue is predominantly comprised of shipment of Asetek products in fulfillment of customer purchase orders. As such, the Company recognizes revenue when a valid contract is in place and control of the goods have transferred to the customer. Customer purchase orders and/or contracts are used as evidence of an arrangement. Delivery occurs and control of the goods is deemed to transfer when products are shipped to the specified location and the risks of obsolescence and loss have been transferred to the customer. For certain customers with vendor-managed inventory, delivery does not occur until product is acquired by the customer from the vendor-managed inventory location.

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The Company assesses collectability based primarily on the creditworthiness of the customer as determined by credit checks and customer payment history.

Customers do not generally have a right of return. The Company has contracts with the United States government and California state government to deliver products under time and materials and costs-plus arrangements. In accordance with IFRS 15 Revenue from Contracts with Customers, revenue under these contracts is recognized as costs are incurred or the product or service has been delivered.

The Company also periodically receives funding from government agencies and other customers to assist with the development and testing of specific technologies. Such awards are recognized over the period that the costs are incurred and are recorded as an offset to research and development expense.

Income received as a result of patent litigation settlement is recorded as other income as an offset to operating expense in the period the award is granted.

2.16. Leases

Leases in which more than an insignificant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. In 2019, operating lease accounting will change to conform with IFRS 16 Leases. See Note 2.23.

The Group leases certain property and equipment. Leases of property and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and the asset is accounted for as if it has been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments over the term of the lease.

Finance lease payments are allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Amounts due within one year are classified as current liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.17. Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. If the impact of time value is significant, the provision is calculated by discounting anticipated future cash flow using a discount rate before tax that reflects the market's pricing of the present value of money and, if relevant, risks specifically associated with the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.18. Contingent liabilities

Contingent liabilities are not recognized in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the probability of the liability occurring is remote.

2.19. Segment reporting

Business segmentation. The Group is reporting on two distinct segments: Gaming and Enthusiast, and Data center. The two segments are identified by their specific sets of products and specific sets of customers. The splitting of operating expenses between segments is based on the Company's best judgment and done by using the Company's employee/project time tracking system to capture total hours charged by project code. Operating expenses that are not divisible by nature (rent, telecommunication expenses, etc.) have been split according to actual time spent on the two businesses, and the Company's best estimate for attribution. Costs incurred for intellectual property defense and headquarters administration have been classified separately as headquarters costs and excluded from segment operating expenses as indicated. The CEO is the Group's chief operating decision-maker. The CEO assesses the performance of each segment principally on measures of revenue, gross margins, and adjusted EBITDA.

Geographical segmentation. Each of the Group's offices in its three principal geographies fulfills a particular function that serves the Asetek Group as a whole. The majority of costs incurred in each of the geographies are generally incurred for the benefit of the entire Group and not to generate revenue in the respective geography. As a result, the financial results of the Group are not divided between multiple geographical segments for key operating decision-making. Revenue and assets by geography is measured and reported in Note 4, Geographical information.

2.20. Cash flow statement

The cash flow statement is prepared using the indirect method.

2.21. Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Areas where significant judgment has been applied are:

// Valuation of deferred tax assets: deferred income tax assets are recognized to the extent that the realization of the tax benefit to offset future tax liabilities is considered to be probable. In prior periods, the Company incurred net operating losses which are eligible to offset future taxable income. In 2017 and 2018, the Company generated net income and therefore recorded deferred tax assets representing the estimated amount of net operating losses that will be utilized to offset future taxable income, based on income projections for the next five years. In future periods, management will continue to assess the probability of realization of the assets' value and adjust the valuation in accordance with IAS 12.

// Capitalization of development costs: the Group's business includes a significant element of research and development activity. Under IAS 38, there is a requirement to capitalize and amortize development spend to match costs to expected benefits from projects deemed to be commercially viable. The application of this policy involves the ongoing consideration by management of the forecasted economic benefit from such projects compared to the level of capitalized costs, together with the selection of amortization periods appropriate to the life of the associated revenue from the product. If customer demand for products or the useful lives of products vary from management estimates, impairment charges on intangibles could increase.

2.22. Defined contribution plan

In 2008, the Company established a defined contribution savings plan (the "Plan") in the U.S. that meets the requirements under Section 401(k) of the U.S. Internal Revenue Code. This Plan covers substantially all U.S. employees who meet the minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Company contributions to the Plan may be made at the discretion of the board of directors. Through December 31, 2018, there have been no contributions made to the Plan by the Company.

2.23. Changes in accounting policy and disclosures

Applied new standards and amendments included in Annual Report for 2018. Certain new standards, amendments to standards, and annual improvements to standards and interpretations are effective for annual periods beginning after January 1, 2018 and have been applied in preparing these consolidated financial statements. The standards and amendments adopted include IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. None of these new standards have a significant effect on the consolidated financial statements of the Group.

New standards and amendments not applied in the Annual Report for 2018. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group:

NOTES

Standard	Content	Effective date
EU ENDORSED AS OF DECEMBER 31, 2018		
IFRIC 23: Uncertainty over Income Tax Treatments	IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12, Income Taxes, when there is uncertainty in income tax treatments. According to IFRIC 23, an entity must determine the probability of the relevant tax authority accepting each tax treatment used in their income tax filing, including considering the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The Company will adopt IFRIC 23 from January 1, 2019 and does not expect it to have a material impact on the consolidated financial statements.	1-Jan-2019
IFRS 16: Leases	IFRS 16 is a new standard on the accounting treatment of operating leases. Operating leases will be recognized in the balance sheet with a lease asset and a corresponding lease liability. Asetek will implement the standard from January 1, 2019. The following are the accounting changes that will affect the Company's financial statements under IFRS 16: 1. Right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included in the consolidated balance sheet for operating leases. 2. Liabilities will be recorded for future lease payments in the Company's consolidated balance sheet for the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments. The amount of lease liabilities will not equal the lease commitments reported on December 31, 2018, as they will be discounted to present value and the treatment of termination and extension options may differ. 3. Lease expenses will be for depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Management does not expect that implementation of IFRS 16 will have a material impact on the Company's results of operations or its consolidated financial statements.	1-Jan-2019
NOT ENDORSED BY EU AS OF DECEMBER 31, 2018		
Annual Improvements to IFRS Standards 2015-2017	IAS 12: Accounting for income tax consequences of dividend payments; IAS 23: clarifying which borrowing costs are eligible for capitalization; IFRS 3 & IFRS 11: remeasurement of investor's interest in a joint operation when it obtains control of the business.	1-Jan-2019
Amendments to References to the Conceptual Framework in IFRS Standards	Improved definitions of an asset and liability; guidance on reporting financial performance; a new chapter about measurement; clarifications in certain areas such as roles of stewardship, prudence and measurement uncertainty in financial reporting.	1-Jan-2020
Amendment to IFRS 3 Business Combinations	Improved definition of a business, to help companies determine whether an acquisition made is of a business or a group of assets.	1-Jan-2020
Amendments to IAS 1 and IAS 8: Definition of Material	Proposal of a refined definition of material, including criteria regarding *obscuring* information, whether information is *reasonably* expected to influence, and reference to *primary* users of financial statements.	1-Jan-2020

3. RISK MANAGEMENT AND DEBT

The Group's activities expose it to a variety of risks: liquidity risk, market risk (including foreign exchange risk and interest rate risk) and credit risk. The primary responsibility for Asetek's risk management and internal controls in relation to the financial reporting process rests with executive management.

Asetek's internal control procedures are integrated in the accounting and reporting systems and include procedures with respect to review, authorization, approval and reconciliation. All entities in the Asetek Group report financial and operational data to the executive office on a monthly basis, including commentary regarding financial and business development. Based on this reporting, the Group's financial statements are consolidated and reported to executive management. Management is in charge of ongoing efficient risk management, including the identification of material risks, the development of systems for risk management, and that significant risks are routinely reported to the board of directors.

The need for an internal audit function is considered regularly by the Audit Committee. However, due to the size of the Company and the established control activities, the Audit Committee so far considers it unnecessary to establish an independent internal executive audit board. As part of risk management, Asetek has a whistle-blower function for expedient and confidential notification of possible or suspected wrongdoing.

Liquidity risk. The Group incurred losses from operations and negative cash flows from operations from inception through 2015; positive cash flows and net earnings were first generated in 2016 and have continued in 2017 and 2018. The Group secured liquidity through its initial public offering of common shares in 2013 and subsequent equity offerings in 2015. Previously the Group issued convertible preferred shares, convertible debt and notes payable to shareholders, and secured bank lines of credit and trade receivables financing. The Group's corporate finance team monitors risk of a shortage of funds through regular updates and analysis of cash flow projections and maturities of financial assets and liabilities. The finance teams also review liquidity, balance sheet ratios (such as days' sales outstanding, inventory turns) and other metrics on a regular basis to ensure compliance both on a short- and long-term basis.

Asetek will continue to invest its capital principally in the development and marketing of its cooling products. In October 2016, the Board of Directors implemented a dividend policy and paid a cash dividend of NOK1.00 in 2017. In April 2018, at the Annual General Meeting, the Board was authorized to acquire the Company's own shares. When considering payment of dividends or Asetek share purchases, the Board takes into consideration the Company's growth plans, liquidity requirements and necessary financial flexibility.

The following are contractual maturities of financial liabilities:

DEBT MATURITIES

AS OF DECEMBER 31, 2018 (USD 000's)	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Line of credit	(741)	-	-	-	(741)
Finance leases	-	(87)	(152)	(640)	(879)
Trade payables and accrued liabilities	-	(9,803)	(1,017)	-	(10,820)
	(741)	(9,890)	(1,169)	(640)	(12,440)

AS OF DECEMBER 31, 2017 (USD 000's)	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Line of credit	(783)	-	-	-	(783)
Finance leases	-	(66)	(202)	(816)	(1,084)
Trade payables and accrued liabilities	-	(11,985)	(1,930)	-	(13,915)
	(783)	(12,051)	(2,132)	(816)	(15,782)

NOTES

Market risk factors. The Group's current principal financial liabilities consist of short-term debt on revolving lines of credit. The Group's financial assets mainly comprise trade receivables, cash and deposits. The Group's operations are exposed to market risks, principally foreign exchange risk and interest rate risk.

(a) Foreign exchange risk. With few exceptions, the Group's inventory purchase and sale transactions are denominated in U.S. dollars. The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, principally with respect to the Danish kroner. Foreign exchange risk arises from operating results and net assets associated with Denmark-based operations where the Danish krone is the functional currency. Transactions that are denominated in Danish kroner result in foreign exchange gains (losses) in the U.S. dollar-based financial statements, and translation of the Denmark entity balance sheet accounts from Danish kroner to U.S. dollars affect the equity balances of the Group. The Company's Denmark entity has a revolving line of credit available totaling 5.5 million Danish kroner ($0.8 million) as of December 31, 2018. The Group does not enter into derivatives or other hedging transactions to manage foreign exchange risk. Management mitigates this exposure through timely settlement of intercompany operating liabilities.

The ending exchange rate at December 31, 2018 was 6.52 Danish kroner to one U.S. dollar (6.21 to the U.S. dollar at December 31, 2017). The effect of a 10% strengthening (weakening) of the Danish kroner against the U.S. dollar for the reporting period would have resulted in an increase (decrease) in pre-tax income for fiscal year 2018 of $565,000 (in 2017, increase of the pre-tax income of $602,000).

(b) Interest rate risk. As of December 31, 2018, Asetek had the following debt outstanding that is subject to interest rate risk:

// Line of credit with Sydbank – 5.5 million Danish kroner revolving line of credit available to Asetek A/S. Total line in USD is approximately $0.8 million, $0.74 million of which was outstanding at December 31, 2018. The line carries interest at the Danish CIBOR 3 rate plus 2.75 percentage points, which in total was 2.5% at December 31, 2018. Based on the line's revolving, short-term nature, interest rate risk is not significant.

Capital and debt management. To date the Company's primary focus has been to support its product development initiatives, maintain liquidity through use of financing alternatives, and maximize shareholder value. The Group manages its capital and debt structure with consideration of economic conditions. In March 2013, the Company completed an initial public offering on the Oslo Stock Exchange, raising net $21.4 million, to support its market strategies and liquidity needs. In March 2015, the Company raised $11.6 million of net proceeds through private placement of 10 million new common shares, at a price of NOK 10.00 per share. In April 2015, the Company issued 480 thousand new shares in a public offering at NOK 10.00 per share, receiving proceeds of $0.6 million. With regard to future capital needs, the Company will continue to consider both equity and debt financing strategies.

Credit risk factors. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk primarily through trade receivables and cash deposits. Management mitigates credit risk through standard review of customer credit-worthiness and maintaining its liquid assets primarily with Wells Fargo Bank in the U.S. and Sydbank in Denmark. The carrying amount of the financial assets represents the maximum credit exposure. Trade receivables that are deemed uncollectible are charged to expense with an offsetting allowance recorded against the trade receivable. Historically, bad debt expense has not been significant. Certain customers in the Gaming and Enthusiast segment have accounted for a significant portion of the Company's revenues in the years presented, as follows. In 2018, the Company's two largest customers accounted for 39% and 21% of revenue (39% and 20% in 2017), respectively. At December 31, 2018 two customers represented 32% and 23% of outstanding trade receivables (37% and 23% at December 31, 2017), respectively. The reserve for uncollectible trade accounts was $64,000 at December 31, 2018 and $92,000 at December 31, 2017. The aged trade receivables and bad debt reserve balances for all years presented are provided in Note 16.

The maximum exposure to credit risk at the reporting dates was:

(USD 000's)	2018	2017
Cash and cash equivalents	18,627	18,398
Trade receivables and other	15,625	13,280
Other assets	309	794
MAXIMUM CREDIT EXPOSURE	**34,561**	**32,472**

4. GEOGRAPHICAL INFORMATION

The Group operates internationally in several geographical areas, principally in Asia, Europe and the Americas.

The following table presents the Group's revenue and assets in each of the principal geographical areas:

(USD 000's)	2018		
	Revenue	Current assets	Non-current assets
Asia	60,741	14,301	58
Americas	4,822	4,748	1,602
Europe	1,751	18,065	12,624
TOTAL	**67,314**	**37,114**	**14,284**

(USD 000's)	2017		
	Revenue	Current assets	Non-current assets
Asia	48,529	11,577	81
Americas	6,480	4,035	2,180
Europe	3,185	18,382	12,921
TOTAL	**58,194**	**33,994**	**15,182**

For the purpose of the above presentation, the information pertaining to revenue and current assets is calculated based on the location of the customers, whereas information pertaining to non-current assets is based on the physical location of the assets. The information pertaining to current assets is calculated as a summation of assets such as trade receivables and finished goods inventories reasonably attributable to the specific geographical area.

(USD 000's)	Non-current assets	
	2018	2017
Denmark	12,624	12,921
USA	1,602	2,180
China	58	81
TOTAL	**14,284**	**15,182**

(USD 000's)	Revenue	
	2018	2017
Denmark	172	317
Hong Kong	26,511	23,096
Taiwan	24,005	18,856
USA	4,732	6,337
All others	11,894	9,588
TOTAL	**67,314**	**58,194**

5. SEGMENT INFORMATION

The Company reports on two segments, Gaming and Enthusiast, and Data center. The two segments are identified by their specific sets of products and specific sets of customers. The CEO is the Group's chief operating decision-maker. The CEO assesses the performance of each segment principally on measures of revenue, gross margins, and adjusted EBITDA. The following tables represent the results by operating segment in 2018 and 2017. Income and expense items below adjusted EBITDA, to arrive at income (loss) before tax, are provided as supplemental disclosures. Disaggregation of revenue is also presented for the major markets within each segment.

Condensed income statement - years ended December 31,	2018				2017			
(USD 000's)	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total
Revenue	63,030	4,284	-	67,314	53,227	4,967	-	58,194
Cost of goods sold	38,128	3,014	-	41,142	33,459	3,766	-	37,225
GROSS PROFIT	**24,902**	**1,270**	**-**	**26,172**	**19,768**	**1,201**	**-**	**20,969**
Operating costs	4,165	8,608	4,014	16,787	3,777	8,474	2,847	15,098
Litigation settlement received	-	-	-	-	-	-	(913)	(913)
ADJUSTED EBITDA	**20,737**	**(7,338)**	**(4,014)**	**9,385**	**15,991**	**(7,273)**	**(1,934)**	**6,784**
Depreciation in operating expense	1,784	1,906	-	3,690	1,033	1,397	-	2,430
Share based compensation	293	626	357	1,276	348	813	436	1,597
Financial income (expenses)	-	-	451	451	-	-	(1,258)	(1,258)
INCOME (LOSS) BEFORE TAX	**18,660**	**(9,870)**	**(3.920)**	**4,870**	**14,610**	**(9,483)**	**(3,628)**	**1,499**

Condensed balance sheet - as of December 31,	2018				2017			
(USD 000's)	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total
TOTAL INVESTMENT	**9,714**	**2,913**	**26,331**	**38,958**	**5,963**	**2,337**	**25,094**	**33,394**
TOTAL ASSETS	16,512	4,587	30,299	51,398	15,833	4,832	28,511	49,176
TOTAL LIABILITIES	6,798	1,674	3,968	12,440	9,870	2,495	3,417	15,782

Changes in intangible assets - years ended December 31,	2018				2017			
(USD 000's)	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total	Gaming and Enthusiast	Datacenter	Not allocable to divisions	Total
OPENING BALANCE, INTANGIBLE ASSETS	**1,312**	**1,442**	**-**	**2,754**	**902**	**969**	**-**	**1,871**
Gross additions	467	1,278	-	1,745	970	1,456	-	2,426
Amortization and other	(996)	(1,089)	-	(2,085)	(560)	(983)	-	(1,543)
ENDING BALANCE, INTANGIBLE ASSETS	**783**	**1,631**	**-**	**2,414**	**1,312**	**1,442**	**-**	**2,754**

NOTES

Disaggregation of revenue:

	2018	2017
Gaming and Enthusiast:		
Enthusiast/DIY	50,438	42,467
Gaming/Performance PC	12,592	10,760
Data center market:		
OEM	3,866	3,682
Government	418	1,285
TOTAL REVENUE	**67,314**	**58,194**

6. SALARY COSTS AND REMUNERATIONS

(USD 000's)	2018	2017
Salaries	9,036	7,449
Retirement fund contributions	383	305
Social cost	1,075	1,082
Share based payment	1,276	1,597
Other expenses	126	599
TOTAL PERSONNEL EXPENSES BEFORE CAPITALIZATION	**11,896**	**11,032**
Capitalized as development cost	(1,176)	(1,526)
TOTAL PERSONNEL EXPENSES IN STATEMENT OF INCOME	**10,720**	**9,506**
AVERAGE NUMBER OF EMPLOYEES	**95**	**93**

The staff costs are specified as follows:

(USD 000's)	2018	2017
Research and development	3,007	3,151
Selling, general and administrative	8,889	7,881
Total personnel expenses before capitalization	11,896	11,032

The figures listed include incentive based compensation for management and staff. Incentive based compensation is based on a combination of quarterly cash-based rewards and periodic grants of options (or warrants) to buy the Company's common shares. The above remuneration for Officers include $72,000 and $50,000 in pension payments in 2018 and 2017, respectively. The bonus plan for the CEO is approved by the Board of Directors at the beginning of the year and the bonus payments for the CEO and the upper management are reviewed by the Board of Directors on an annual basis. All bonus plans are structured to include an absolute dollar cap.

The Company's CEO has an agreement of twelve months' severance pay in case of termination or termination in connection with change of control. The Company's CFO has an agreement of seven months' severance pay in case of termination or termination in connection with change of control. Except for the Company's CEO and CFO and other members of the executive group, no member of the administrative, management or supervisory bodies has contracts with the Company or any of its subsidiaries providing for benefits upon termination of employment.

Share Ownership of Officers at December 31, 2018:

	André S. Eriksen	Peter D. Madsen
Common shares	201,186	77,587
Options at $0.96	9,375	9,375
Options at NOK 46.30	53,300	26,500
Warrants at:		
NOK 10.50	92,333	50,875
NOK 19.50	106,799	49,837
NOK 36.50	101,523	37,800
NOK 40.10	24,750	10,313
NOK 76.25	132,981	44,215
TOTAL SHARES CONTROLLED	**722,247**	**306,502**

Options granted in 2018:

Group	Options Granted
Board of directors	-
Officers	79,800
Other executives	89,615
Other employees	209,085
TOTAL GRANTED	**378,500**

Compensation to the Board of Directors, Officers and Other Executives*

	2018				2017			
(USD 000's)	Directors	Officers	Other Executives	Total	Directors	Officers	Other Executives	Total
Salary	-	798	932	1,730	-	606	758	1,364
Bonus	-	189	301	490	-	154	170	324
Share based	7	357	522	886	82	455	515	1,052
Other	98	127	57	282	84	123	43	250
TOTAL	**105**	**1,471**	**1,812**	**3,388**	**166**	**1,338**	**1,486**	**2,990**

*Other Executives includes the Chief Operating Officer and other members of the executive team who are leaders of the key functions (Engineering, Sales & Marketing, Operations)

7. SHARE BASED PAYMENT

Asetek's Equity Incentive Plan ('the Plan') is a share compensation program where the employees and other parties that deliver services to the Group have been granted share options (or warrants). The options, if vested and executed, will be settled in common shares of the Company.

The options are granted at the time of employment and, at the discretion of the Board of Directors, under other circumstances. The options are granted with exercise prices equaling the fair market value of the underlying security. The exercise prices of option grants are determined based on the closing market price of the shares on the day of the grant. Share based compensation expense was $1,276,000 and $1,597,000 for the years ended December 31, 2018 and 2017, respectively.

The Plan was adopted by the Board of Directors in 2008 and has the following purpose:

// To attract and retain the best available personnel for positions of substantial responsibility;

// To provide additional incentive to employees, directors and consultants, and

// To promote the success of the Company's business.

As of December 31, 2018, there is a total of 2,469,163 common shares authorized under the Plan.

The Company's shares trade on the Oslo Stock Exchange, at prices denominated in Norwegian krone (NOK). The exchange rate at December 31, 2018 of NOK to USD was 8.71.

In October 2018, the Company granted 378,500 options with exercise prices of NOK46.30 per share.In July 2017, the Company granted 106,999 warrants with exercise prices of NOK113.00 per share. In April 2017, the Company granted 509,687 warrants with exercise prices of NOK76.25 per share.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

Of the 378,500 options granted with exercise price of NOK46.30 per share in October 2018, none of these options were exercisable or forfeited as of December 31, 2018.

The options granted to employees in October 2018 become exercisable over a period of three years.Options and warrants granted to employees prior to 2018 generally become exercisable over a period of four years.

The composition of options and warrants outstanding at December 31, 2018 is as follows:

Exercise price per share	Number of shares
USD 0.94	-
USD 0.96	60,260
NOK 10.50	398,285
NOK 19.50	425,738
NOK 33.90	7,170
NOK 36.50	331,560
NOK 40.10	73,550
NOK 46.30	378,500
NOK 76.25	443,937
NOK 113.00	106,999
TOTAL	**2,225,999**

The Company calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model, which requires subjective assumptions, including future stock price volatility and expected time to exercise. The expected volatility was based on the historical volatility of the Company's stock price. The weighted average remaining contractual term of options outstanding is 4.3 years. The options granted in October 2018 have an estimated total value of $1.0 million. The warrants granted in July 2017 have an estimated total value of $0.6 million. The warrants granted in April 2017 have an estimated total value of $2.2 million.

The following weighted average assumptions were used for the period indicated.

		Weighted Average Exercise - Price (NOK)		Weighted Average Exercise - Price (NOK)
Activity for exercise prices of: USD 0.94 to NOK 19.50	**2018**	**Price**	**2017**	**Price**
Outstanding on January 1	1,158,363	14.34	1,430,738	14.57
Options/warrants exercised	(221,928)	12.44	(248,289)	10.67
Options/warrants forfeited	(52,152)	16.59	(24,086)	12.34
OUTSTANDING ON DECEMBER 31	**884,283**	**14.68**	**1,158,363**	**14.34**
EXERCISABLE ON DECEMBER 31	**659,424**	**14.09**	**643,591**	**13.23**

The weighted average market price per share on the date of exercise for the above shares was NOK 88.72 in 2018 and NOK 86.86 in 2017.

		Weighted Average Exercise - Price (NOK)		Weighted Average Exercise - Price (NOK)
Activity for exercise prices of: NOK 33.90 to NOK 113.00	**2018**	**Price**	**2017**	**Price**
Outstanding on January 1	1,097,875	62.41	557,726	53.27
Options/warrants granted	378,500	46.30	616,686	65.36
Options/warrants exercised	(82,595)	40.15	(70,494)	36.77
Options/warrants forfeited	(52,064)	76.25	(6,043)	68.84
OUTSTANDING ON DECEMBER 31	**1,341,716**	**58.70**	**1,097,875**	**62.41**
EXERCISABLE ON DECEMBER 31	**688,585**	**53.14**	**584,066**	**44.47**

The weighted average market price per share on the date of exercise for the above shares was NOK 82.96 in 2018 and NOK 101.02 in 2017.

Valuation assumptions	**2018**	**2017**
Risk-free interest rate	2.58% - 2.91%	1.60% - 1.78%
Dividend yield	0.0%	0.0%
Expected life of options (years)	4.03 - 6.83	3.58 - 4.07
Expected volatility	66% - 69%	74% - 77%

NOTES

8.EXPENSES BY NATURE

(USD 000's)	Note	2018	2017
Inventories recognized as cost of sales	17	41,142	37,225
Personnel expenses	6	11,896	11,032
Depreciation and amortization		3,690	2,430
Legal, patent, consultants and auditor		3,283	3,636
Litigation settlement received		-	(913)
Facilities and infrastructure		1,276	928
Other expenses		3,353	3,546
TOTAL OPERATING EXPENSES BEFORE CAPITALIZATION		**64,640**	**57,884**
Less: capitalized costs for development projects	14	(1,745)	(2,447)
TOTAL EXPENSES		**62,895**	**55,437**

Included as an offset to operating expense in 2017 is litigation settlement received, which represents net awards from patent litigation and is reported as other income in the consolidated statement of comprehensive income.

Depreciation and amortization expense by classification on the income statement is as follows:

(USD 000's)	2018	2017
Depreciation and amortization included in:		
Research and development	1,700	1,185
Selling, general and administrative	1,990	1,245
TOTAL	**3,690**	**2,430**

9. FINANCE COSTS AND INCOME

(USD 000's)	2018	2017
Foreign exchange gain (loss)	342	(1,239)
Interest cost on line of credit	(4)	(5)
Interest cost on finance leases	(31)	(37)
Interest income	205	84
Other banking and finance fees	(60)	(61)
TOTAL FINANCE INCOME	**451**	**(1,258)**

10. INCOME TAXES

Tax on profit/loss for the year is specified as follows:

(USD 000's)	2018	2017
Current income tax (expense) benefit	(1,198)	73
Deferred income tax benefit	-	2,903
TAX (EXPENSE) BENEFIT	**(1,198)**	**2,976**

The tax (expense) benefit on the Group's income before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

(USD 000's)	2018	2017
INCOME BEFORE TAX	**4,870**	**1,499**
Tax calculated at domestic rates applicable to profits/losses in respective countries	(1,122)	(630)
Tax effects of: Foreign R&D tax credit	-	88
Expenses not deductible for tax purposes	(305)	(28)
Benefit of tax losses recognized	415	3,684
Temporary differences between book and tax	(200)	(138)
TAX (EXPENSE) BENEFIT	**(1,198)**	**2,976**

The Company's consolidated weighted average tax rate for 2018 decreased from 2017 due to a reduction in the corporate tax rate in the U.S. in 2018.

11. DEFERRED INCOME TAX

(USD 000's)	2018	2017
Potential tax assets from prior year losses	8,673	9,256
Tax assets not considered probable to realize before expiration	(1,215)	(1,478)
DEFERRED INCOME TAX ASSETS	**7,458**	**7,778**

At December 31, 2018, potential income tax assets totaled \$8.7 million (2017: \$9.3 million) in respect of remaining losses to be carried forward amounting to \$57.4 million that should be applied to different tax rates. The losses can be carried forward against future taxable income. In 2018, the Group recorded deferred tax assets totaling \$7.5 million (\$7.8 million in 2017), which represents the net tax benefit that the Company considers probable to be realized in the future, based on Company budget for the following year and estimates for the subsequent years.

In accordance with IAS 12, the Company recognizes deferred tax assets arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the Company. The estimated tax benefit is calculated considering historical levels of income, expectations and risks associated with estimates of future taxable income.The calculation utilizes the statutory tax rates that are expected to apply to taxable income for the years in which the asset is expected to be realized.

Losses of the U.S. parent company and U.S. subsidiary will begin to expire in 2028 for carryforward purposes. Losses of the Denmark subsidiary do not expire.

Expiration of the carryforward of losses is summarized as follows:

(USD 000's)	Tax effected loss
Expire in years 2028 to 2034	1,462
Do not expire	5,996
TOTAL	**7,458**

NOTES

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the number of common shares outstanding used in the Basic calculation for the effect of dilutive equity instruments, which include options, warrants and debt or preferred shares that are convertible to common shares, to the extent their inclusion in the calculation would be dilutive.

	2018	2017
Income attributable to equity holders of the Company (USD 000's)	$3,672	$4,475
Weighted average number of common shares outstanding (000's)	25,447	25,129
BASIC EARNINGS PER SHARE	**$0.14**	**$0.18**
Weighted average number of common shares outstanding (000's)	25,447	25,129
Instruments with potentially dilutive effect: Warrants and options (000's)	940	1,372
Weighted average number of common shares outstanding, diluted (000's)	26,387	26,501
DILUTED EARNINGS PER SHARE	**$0.14**	**$0.17**

13. FINANCIAL INSTRUMENTS CATEGORY AND FAIR VALUE ESTIMATION

The Company uses the following valuation methods for fair value estimation of its financial instruments:

// Quoted prices (unadjusted) in active markets (Level 1).

// Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2).

// Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

All of the Company's financial assets as of December 31, 2018 are classified as 'amortized cost' having fixed or determinable payments that are not quoted in an active market (Level 3). As of December 31, 2018, all of the Company's financial liabilities are carried at amortized cost.

The Company believes that book value approximates fair value for all financial instruments as of December 31, 2018. The values of the Group's assets and liabilities are as follows:

As of December 31, 2018

(USD 000's)	Amortized cost
Assets as per balance sheet:	
Trade receivables and other	15,625
Cash and cash equivalents	18,627
	34,252

As of December 31, 2018

(USD 000's)	Liabilities at fair value through profit and loss	Other financial liabilities at amortized cost	Total
Liabilities as per balance sheet:			
Long-term debt	-	641	641
Short-term debt	-	980	980
Trade payables and accrued liabilities	-	10,819	10,819
	-	**12,440**	**12,440**

As of December 31, 2017

(USD 000's)	Amortized cost
Assets as per balance sheet:	
Trade receivables and other	13,280
Cash and cash equivalents	18,398
	31,678

As of December 31, 2017

(USD 000's)	Liabilities at fair value through profit and loss	Other financial liabilities at amortized cost	Total
Liabilities as per balance sheet:			
Long-term debt	-	816	816
Short-term debt	-	1,051	1,051
Trade payables and accrued liabilities	-	13,915	13,915
	-	**15,782**	**15,782**

14. INTANGIBLE ASSETS

The Group routinely incurs costs directly attributable to the design and testing of new or improved products to be held for sale. These costs are capitalized as intangible assets and amortized over the estimated useful lives of the products, typically three to forty-eight months. The following table presents a summary of these development projects.

(USD 000's)	2018	2017
COST:		
Balance at January 1	8,682	6,758
Additions	1,745	2,447
Deletions - completion of useful life	(1,793)	(458)
Impairment loss	(210)	(65)
BALANCE AT DECEMBER 31	**8,424**	**8,682**
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES:		
Balance at January 1	(5,928)	(4,887)
Amortization for the year	(2,085)	(1,538)
Amortization associated with deletions	1,793	437
Amortization associated with impairment losses	210	60
BALANCE AT DECEMBER 31	**(6,010)**	**(5,928)**
CARRYING AMOUNT	**2,414**	**2,754**

Impairment tests are performed annually on developed assets and assets under construction. Impairment tests are also performed on completed assets whenever there are indications of a need for write-offs and for assets still in development regardless of whether there have been indications for write downs. If the value of expected future free cash flow of the specific development project is lower than the carrying value, the asset is written down to the lower value.

The booked value includes capitalized salary expenses and other net assets for the cash flow producing project. Expected future free cash flow is based on budgets and anticipations prepared by management. The main parameters are the development in revenue, EBIT and working capital.

15. PROPERTY AND EQUIPMENT

The following table presents a summary of property and equipment activity.

(USD 000's)	Leasehold improvements	Machinery	Other fixtures, fittings, tools equipment	Total
COST:				
Balance at January 1, 2017	360	2,799	992	4,151
Additions	415	1,603	724	2,742
Disposals	-	(376)	(36)	(412)
Exchange rate difference	57	393	156	606
BALANCE AT DECEMBER 31, 2017	**832**	**4,419**	**1,836**	**7,087**
Balance at January 1, 2018	832	4,419	1,836	7,087
Additions	584	885	579	2,048
Disposals	-	(28)	(54)	(82)
Exchange rate difference	(53)	(210)	(100)	(363)
BALANCE AT DECEMBER 31, 2018	**1,363**	**5,066**	**2,261**	**8,690**
ACCCUMULATED DEPRECIATIONS:				
Balance at January 1, 2018	(200)	(1,798)	(468)	(2,466)
Disposals	-	374	36	410
Depreciations for the year	(86)	(597)	(209)	(892)
Exchange rate differences	(20)	(202)	(61)	(283)
BALANCE AT DECEMBER 31, 2017	**(306)**	**(2,223)**	**(702)**	**(3,231)**
Balance at January 1, 2018	(306)	(2,223)	(702)	(3,231)
Disposals	-	28	54	82
Depreciations for the year	(230)	(973)	(401)	(1,604)
Exchange rate differences	17	108	41	166
BALANCE AT DECEMBER 31, 2018	**(519)**	**(3,060)**	**(1,008)**	**(4,587)**
CARRYING AMOUNT AT DECEMBER 31, 2017	**526**	**2,196**	**1,134**	**3,856**
CARRYING AMOUNT AT DECEMBER 31, 2018	**844**	**2,006**	**1,253**	**4,103**

At December 31, 2018, property and equipment includes leased equipment at a gross value of approximately $1,538,000 which had accumulated amortization of $839,000. (2017: gross value of $1,477,000 and accumulated amortization of $476,500).

NOTES

16. TRADE RECEIVABLES AND OTHER

Trade receivables are non-interest bearing and are generally on payment terms of Net 30 days.

(USD 000's)	2018	2017
Gross trade receivables	14,626	12,801
Provision for uncollectible accounts	(64)	(92)
NET TRADE RECEIVABLES	**14,562**	**12,709**
Other receivables and assets	1,063	571
TOTAL TRADE RECEIVABLES AND OTHER	**15,625**	**13,280**

Credit Loss Provision Matrix

		Past due			
(USD 000's)	Not yet due	1 to 30 days	31 to 60 days	over 60 days	Total
Gross carrying amount	12,170	2,281	111	64	14,626
Expected credit loss rate	0.1%	1.2%	10%	20%	
Lifetime expected credit loss	(12)	(28)	(11)	(13)	(64)

The aging of trade receivables as of the reporting date is as follows:

				Past due:	
(USD 000's)	Total	Not yet due	1 to 30 days	31 to 60 days	Over 60 days
December 31, 2018	**14,626**	**12,170**	**2,281**	**111**	**64**
December 31, 2017	**12,801**	**10,222**	**2,392**	**24**	**163**

The trade receivables of Asetek Danmark A/S carry a general lien of 6 million Danish krone ($1.0 million), representing collateral on Sydbank's engagement with the Company. The carrying amount of trade receivables is approximately equal to fair value due to the short term to maturity. Regarding credit risks, refer to Note 3.

A summary of the activity in the provision for uncollectible accounts is as follows:

(USD 000's)	2018	2017
Balance at January 1	(92)	(37)
Additions	(64)	(92)
Reversals	92	37
BALANCE AT DECEMBER 31	**(64)**	**(92)**

17. INVENTORIES

(USD 000's)	2018	2017
Raw materials and work-in-process	1,249	843
Finished goods	1,812	1,610
Total gross inventories	3,061	2,453
Less: provision for inventory reserves	(199)	(137)
TOTAL NET INVENTORIES	**2,862**	**2,316**

(USD 000's)	2018	2017
Inventories recognized as cost of sales during the period	(41,142)	(37,225)
Write-down of inventories to net realizable value	(199)	(137)

A summary of the activity in the provision for inventory reserves is as follows:

(USD 000's)	2018	2017
Balance at January 1	(137)	(118)
Additions	(199)	(137)
Write-offs	137	118
BALANCE AT DECEMBER 31	**(199)**	**(137)**

18. SHARE CAPITAL

The Company has reserved 1,150 thousand shares (4.5% of total shares, nominal value DKK 115 thousand) for future exercises of options. In 2018, a total of 305 thousand options (1.2% of total shares, nominal value DKK 31 thousand) were exercised resulting in $0.8 million funds received by the Company. In 2017, a total of 319 thousand options (1.2% of total shares, nominal value DKK 31 thousand) were exercised and $0.7 million funds received by the Company.As of December 31, 2018, there are 25,540 thousand common shares outstanding with a nominal value of 0.10 DKK per share and 245 thousand shares (1% of total shares, nominal value DKK 25 thousand) held in treasury. Included in equity is a reserve for treasury shares of approximately $4,000 at December 31, 2018.

A dividend associated with results of the year ended December 31, 2016 of NOK1.00 per share, for a total payout of $2.9 million, was paid in 2017. No dividend was paid in 2018.

The following table summarizes common share activity in the years presented:

(USD 000's)	2018	2017
Common shares outstanding - January 1	25,235	24,919
Options and warrants exercised and shares issued	305	316
COMMON SHARES OUTSTANDING - DECEMBER 31	**25,540**	**25,235**

Refer to 'Shareholder information' in this report for information on the composition of Asetek shareholders.

19. NET DEBT

The following is a summary of the Company's outstanding and net debt:

The following is a summary of the Company's outstanding and net debt:

(USD 000's)	2018	2017
Line of credit	(741)	(783)
Finance leases - due within one year	(239)	(268)
DEBT INCLUDED IN CURRENT LIABILITIES	**(980)**	**(1,051)**
Finance leases - due after one year	(640)	(816)
TOTAL DEBT	**(1,620)**	**(1,867)**
Less: cash and equivalents	18,627	18,398
NET DEBT	**17,007**	**16,531**

Asetek A/S Danmark line of credit. In September 2012, the Company entered into a revolving line of credit agreement with Sydbank. The line is collateralized by the trade receivables of Asetek Danmark A/S and is payable on demand. At December 31, 2018, the total line was 5.5 million Danish kroner, which equates to $843 thousand at December 31, 2018. Interest on the line is payable monthly at the Danish CIBOR 3 rate plus 2.75 percentage points, which in total was 2.5% at December 31, 2018. As of December 31, 2018, the Company had 4.83 million Danish kroner ($741 thousand) outstanding on the line. (4.86 million Danish kroner outstanding at December 31, 2017).

Reconciliation of liability for line of credit:

(USD 000's)	2018	2017
Beginning balance	(783)	(414)
Net paid (drawn) on line of credit	6	(295)
Foreign exchange impact	36	(74)
ENDING BALANCE	**(741)**	**(783)**

NOTES

20. LEASES

Operating leases. The Company leases some of its facilities under noncancelable operating leases. Total expense from operating leases was $662,000 in 2018 ($584,000 in 2017).

The Company's office space in Aalborg, Denmark is under lease through July 2025. The Company subleased a portion of this facility to another tenant and under the sublease agreement received payments totaling $88,000 for rent and expenses during the year ended December 31, 2017. The sublease ended June 30, 2017. The Company's office in San Jose, California is under lease through December 2023, with an available option to terminate without penalty beginning in January 2021.

Future minimum operating lease payments are as follows as of the balance sheet date:

(USD 000's)	2018	2017
Minimum operating lease payments due:		
In the following year	547	582
In the second year	569	399
In the third year	548	399
In the fourth year	552	395
In the fifth year and thereafter	1,160	1,413
	3,376	**3,189**

Finance leases. The Company has finance leases outstanding for manufacturing, engineering and test equipment and the leases generally have terms of 60 months. There are no lease commitments beyond five years. Future minimum lease payments under finance leases are as follows as of the respective balance sheet date:

(USD 000's)	2018	2017
Minimum finance lease payments as of December 31	936	1,161
Less: amount representing interest	(57)	(77)
TOTAL OBLIGATIONS UNDER FINANCE LEASES	**879**	**1,084**
Obligations under finance leases due within one year	239	268
Obligations under finance leases due after one year	640	816
	879	**1,084**

Reconciliation of finance lease liability

(USD 000's)	2018	2017
Beginning balance	1,084	374
Additions to finance leases	134	789
Finance lease payments	(321)	(162)
Foreign exchange impact	(18)	83
ENDING BALANCE	**879**	**1,084**

21. TRANSACTIONS WITH RELATED PARTIES

The Company's former chairman (retired October 2018) was a member of the board of directors of a reseller of Company products during his tenure on the Asetek board. In the ten month period of 2018 during which he was associated with Asetek, the Company had sales to this reseller of $23.2 million, which represented 43% of Asetek's total revenues during the period ($22.7 million representing 39% of total revenues in the full year 2017).

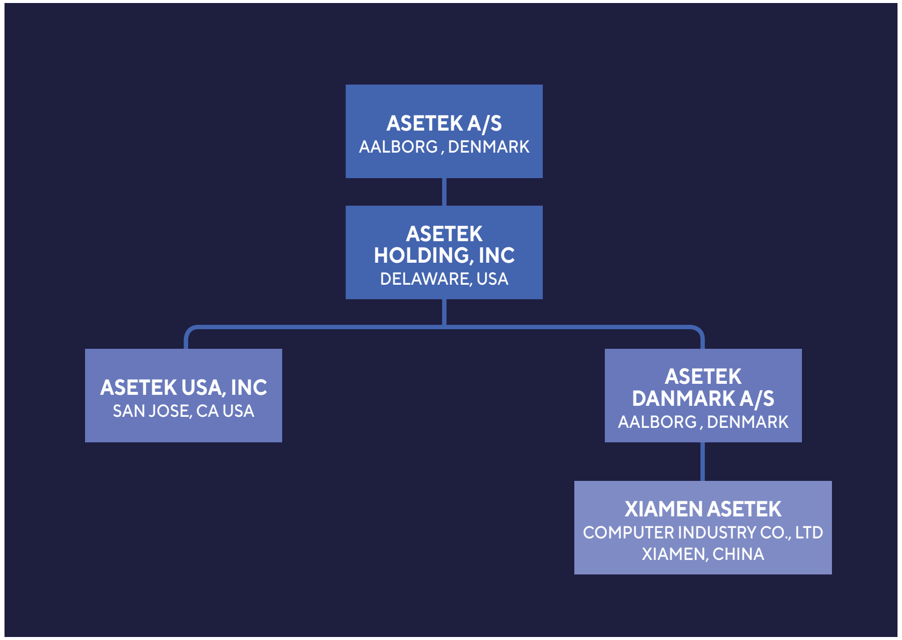
The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In 2018, the Company purchased services totaling approximately $0.5 million ($0.4 million in 2017) from this vendor. At December 31, 2018 and 2017, the Company had outstanding payables to this vendor of $36,000 and $24,000, respectively.

22. SUBSIDIARIES

The following entities are included in the consolidated accounts:

Company	Domicile	Stake	Voting Share	Activity
Asetek A/S	Denmark	100%	100%	Trading
Asetek Holdings, Inc.	USA	100%	100%	Inactive
Asetek USA, Inc.	USA	100%	100%	Trading
Asetek Danmark A/S	Denmark	100%	100%	Trading
Xiamen Asetek Computer Industry Co., Ltd.	China	100%	100%	Trading

During 2018, the Company absorbed the operations of Asetek International Aps into other entities in order to optimize the organizational structure.



23. AUDIT FEES

The Group's principal auditors perform audits for all of Asetek's entities except for the Xiamen, China subsidiary, which is audited by a local firm. The Group's principal auditors received a total fee of $227,000 and $175,000 in 2018 and 2017, respectively. Tax services provided by the Company's principal auditors in 2018 included advisory regarding deferred taxes and transfer pricing.

The fee is distributed between these services:

(USD 000's)	2018	2017
Statutory audit	100	128
Other assurance services	6	2
Tax services	80	45
Remuneration consulting	41	-
TOTAL	**227**	**175**

NOTES

24. BOARD OF DIRECTORS

The members of the Board of Directors have reported, that they had the below listed other director positions as of the date of this filing. For the year 2018, the board members have been compensated as listed below.

The members of the Board of Directors have reported, that they had the below listed other director positions as of the date of this filing. For the year 2018, the board members have been compensated as listed below.

Board of Directors 2018 Compensation and Current Holdings

Name and other board positions	Asetek equity holdings	Shares	2018 Cash Compensation
CHRIS CHRISTOPHER	Owned shares	55,840	$ 33,333
Rocky Mountain Innosphere - Board member	Options @ $0.96	17,760	
CloudGen - Board member	Warrants @ NOK10.50	15,654	
	Warrants @ NOK19.50	14,757	
	Warrants @ NOK36.50	12,822	
	Warrants @ NOK40.10	11,000	
	Warrants @ NOK76.25	4,400	
JIM MCDONNELL	Owned shares	16,400	$ 33,333
None	Warrants @ NOK10.50	15,654	
	Warrants @ NOK19.50	14,757	
	Warrants @ NOK33.90	6,408	
	Warrants @ NOK76.25	4,400	
JØRGEN SMIDT	Owned shares	16,600	$ -
Flatfrog AB - Board member			
Microtask OY - Board member			
FreeSpee - Board member			
MARIA HJORTH	None		$ -
VP Securities A/S - Board member			
SAMUEL SZTEINBAUM	Not reported		$ 26,667
Board term ended October 23, 2018			
KNUT ØVERSJØEN	Not reported		$ 6,667
Board term ended April 25, 2018			

25. POST BALANCE SHEET EVENTS

The Company has evaluated the period after December 31, 2018 up through the date of the Statement by Management and determined that, other than the following, there were no transactions or events that required recognition or disclosure in the Company's financial statements:

On January 23, 2019, the Company filed a patent infringement lawsuit against CoolIT Systems, Inc. ("CoolIT") in the U.S. Northern District of California. The Company seeks judgment that CoolIT infringes five of Asetek's patents.

26. CONTINGENT LIABILITIES

Legal proceedings. In the ordinary course of conducting our business, the Company is involved in various intellectual property proceedings, including those in which it is a plaintiff that are complex in nature and have outcomes that are difficult to predict. Asetek records accruals for such contingencies to the extent that it is probable that a liability will be incurred and the amount of the related loss can be reasonably estimated. The Company's assessment of each matter may change based on future unexpected events. An unexpected adverse judgment in any pending litigation could cause a material impact on the Group's business operations, intellectual property, results of operations or financial position. There are no material updates to matters previously reported on the Asetek 2017 Annual Report, except:

In April 2016, Asetek initiated patent infringement proceedings against Cooler Master and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against Cooler Master, by decision on September 20, 2017, the Court dismissed Asetek's claim. Asetek appealed the decision, and a court hearing is scheduled for March 18, 2019. The case against Coolergiant has been stayed, pending final judgment in the Cooler Master case.

On September 30, 2014, Asia Vital Components Co., Ltd. filed suit against Asetek Danmark A/S in the Eastern District of Virginia, requesting a declaratory judgment of non-infringement and invalidity of Asetek's U.S. Patents 8,240,362 and 8,245,764. Asetek disputes these allegations. In December 2016 the court granted Asetek's motion to transfer the case to the Northern District of California. A jury trial is scheduled to begin in May 2019.

In 2017, Coolergiant GmbH filed suit against Asetek Danmark A/S in Mannheim District Court requesting declaration of non-infringement in Germany of an Asetek patent. The Company disputed the allegations and filed counterclaim motions. In November 2018, the Court ruled that the named Coolergiant products infringe on Asetek's patent and granted Asetek claims for injunctive relief, rendering of accounts, recall and destruction. Coolergiant has appealed the decision. The appeal is pending, and the next hearing date has not yet been set.

Other significant commitments of the Company are referenced within the respective Notes to these consolidated financial statements.

Asetek A/S

CVR-number: 3488 0522

ANNUAL REPORT 2018, PARENT COMPANY

For year ended December 31, 2018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COMPREHENSIVE INCOME STATEMENT, PARENT COMPANY

For the years ended December 31, 2018 and 2017

(USD 000's)	Note	2018	2017
Service fees	11	3,312	1,233
TOTAL REVENUE		**3,312**	**1,233**
Research and development	3, 4, 5	(245)	(328)
Selling, general and administrative	3, 4, 5	(2,979)	(2,926)
TOTAL OPERATING EXPENSES		**(3,224)**	**(3,254)**
OPERATING LOSS		**88**	**(2,021)**
Foreign exchange (loss)/gain	6	(68)	(22)
Finance income	6	263	125
Finance costs	6	(45)	(69)
TOTAL FINANCIAL INCOME		**150**	**34**
INCOME (LOSS) BEFORE TAX		**238**	**(1,987)**
Income tax	7	(334)	206
LOSS FOR THE YEAR		**(96)**	**(1,781)**
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments		-	-
TOTAL COMPREHENSIVE LOSS		**(96)**	**(1,781)**

All operations are continuing.

BALANCE SHEET, PARENT COMPANY
As of December 31, 2017 and 2016

(USD 000's)	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	8	20,100	20,100
Receivables from subsidiaries	9	2,134	551
Deferred income tax assets		33	118
TOTAL NON-CURRENT ASSETS		**22,267**	**20,770**
CURRENT ASSETS			
Other assets		14	100
Cash and cash equivalents		11,586	10,583
TOTAL CURRENT ASSETS		**11,600**	**10,684**
TOTAL ASSETS		**33,867**	**31,454**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	422	419
Retained earnings		32,626	30,665
Translation and other reserves		(4)	(6)
TOTAL EQUITY		**33,044**	**31,078**
CURRENT LIABILITIES			
Accrued liabilities		563	375
Accrued compensation and employee benefits		245	-
Trade payables		15	-
TOTAL CURRENT LIABILITIES		**823**	**375**
TOTAL LIABILITIES		**823**	**375**
TOTAL EQUITY AND LIABILITIES		**33,867**	**31,454**

STATEMENT OF CHANGES IN EQUITY, PARENT COMPANY

(USD 000's)	Share capital	Translation reserves	Other reserves	Retained earnings	Total
EQUITY AT DECEMBER 31, 2016	**417**	**-**	**(9)**	**33,075**	**33,483**
Total comprehensive income for 2017					
Loss for the year	-	-	-	(1,781)	(1,781)
TOTAL COMPREHENSIVE LOSS FOR 2017	**-**	**-**	**-**	**(1,781)**	**(1,781)**
Transactions with owners in 2017					
Shares issued	2	-	3	684	689
Dividends	-	-	-	(2,910)	(2,910)
Share based payment expense	-	-	-	1,597	1,597
Transactions with owners in 2017	2	-	3	(629)	(624)
EQUITY AT DECEMBER 31, 2017	**419**	**-**	**(6)**	**30,665**	**31,078**
Total comprehensive income for 2018					
Loss for the year	-	-	-	(96)	(96)
TOTAL COMPREHENSIVE INCOME FOR 2018	**-**	**-**	**-**	**(96)**	**(96)**
Transactions with owners in 2018					
Shares issued	3	-	2	780	785
Share based payment expense	-	-	-	1,276	1,276
Transactions with owners in 2018	3	-	2	2,056	2,061
EQUITY AT DECEMBER 31, 2018	**422**	**-**	**(4)**	**32,626**	**33,044**

STATEMENT OF CASH FLOWS, PARENT COMPANY

For the years ended December 31, 2018 and 2017

(USD 000's)	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(96)	(1,781)
Share based payments expense	4	1,276	1,597
Income tax expense (income)		334	(206)
Changes in other current assets		87	(3)
Changes in trade payables and accrued liabilities		200	(85)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**1,801**	**(478)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Net receipts from (payments to) subsidiaries	9	(1,584)	(435)
NET CASH USED IN INVESTING ACTIVITIES		**(1,584)**	**(435)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital	10	785	686
Dividends	10	-	(2,910)
NET CASH PROVIDED BY FINANCING ACTIVITIES		**785**	**(2,224)**
Effect of exchange rate changes on cash and cash equivalents		-	-
NET CHANGES IN CASH AND CASH EQUIVALENTS		**1,003**	**(3,136)**
Cash and cash equivalents at beginning of period		10,583	13,719
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**11,586**	**10,583**

NOTES

1. GENERAL INFORMATION

Reference is made to Note 1 to the Consolidated Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 2018 financial statements for Asetek A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by IASB and adopted by the EU.

The financial statements are presented in U.S. Dollars (USD), which is the functional currency.

The accounting policies for the Parent Company are the same as for the Asetek Group, as per Note 2 to the consolidated financial statements, with the exception of the items listed below.

2.1. Dividends on investments in subsidiaries, joint ventures and associates.

Dividends on investments in subsidiaries, joint ventures and associates are recognized as income in the income statement of the Parent Company in the financial year in which the dividend is declared.

2.2. Investments in subsidiaries, joint ventures and associates. Investments in subsidiaries, joint ventures and associates are measured atthe lower of cost or the recoverable amount. An impairment test on the investment in subsidiaries is performed if the carrying amount of the subsidiaries' net assets exceeds the carrying value of the Parent Company's investments.

3.TOTAL OPERATING EXPENSES

Operating expenses consisted of the following for the year ended December 31,

(USD 000's)	2018	2017
Personnel expenses (Note 4)	2,505	2,626
Legal, consultants and auditor	471	425
Other expenses	249	203
TOTAL EXPENSES	**3,224**	**3,254**

4.PERSONNEL EXPENSES

Total personnel costs for the year ended December 31,

(USD 000's)	2018	2017
Salaries, pension and other	1,228	1,029
Share based payment	1,276	1,597
TOTAL PERSONNEL EXPENSES	**2,505**	**2,626**

Total personnel costs are specified as follows:

(USD 000's)	2018	2017
Research and development	245	328
Selling, general and administrative	2,260	2,299
TOTAL PERSONNEL EXPENSES	**2,505**	**2,626**

The average number of employees in the Parent company is two for both years presented. The figures listed above include a portion of the executive management's cash compensation based on an estimate of the actual resources allocated to the management of the parent company. Also, the figures include incentive based compensation in the form of share options and warrants granted to employees in the Asetek Group. Refer to Notes 6 and 7 in the Consolidated Financial Statements for information regarding incentive compensation programs and management remuneration.

Remuneration of the Group Board of Directors is specified in Note 6 to the Consolidated Financial Statements.

The Company's share based incentive pay program is described in Note 7 of the Consolidated Financial Statements.

5. AUDIT FEES

Tax services provided by the Company's principal auditors in 2018 included advisory regarding deferred taxes and transfer pricing. The Company's subsidiary in Xiamen, China is audited by a local firm.

(USD 000's)	2018	2017
Statutory audit	56	85
Other assurance services	6	2
Tax services	62	45
Remuneration consulting	41	-
TOTAL	**165**	**132**

6. FINANCIAL INCOME AND COST

(USD 000's)	2018	2017
FOREIGN CURRENCY EXCHANGE (LOSS) GAIN	**(68)**	**(22)**
Interest income on loans to subsidiaries	115	57
Interest from bank accounts	148	68
TOTAL FINANCE INCOME	**263**	**125**
Interest cost on loans from subsidiaries	(42)	(65)
Other finance expense	(3)	(4)
TOTAL FINANCE COST	**(45)**	**(69)**

7. INCOME TAX

Reference is made to Notes 10 and 11 to the Consolidated Financial Statements.

8.INVESTMENT IN SUBSIDIARIES

(USD 000's)	Investment in Asetek Holdings, Inc.
Balance at December 31, 2016	20,100
Additions	-
Balance at December 31, 2017	20,100
Additions	-
Balance at December 31, 2018	20,100
Carrying amount at December 31, 2016	20,100
Carrying amount at December 31, 2017	20,100
Carrying amount at December 31, 2018	20,100

Asetek A/S acquired 100% of Asetek Holdings, Inc. through the exchange of shares in February 2013. At the time of acquisition, Asetek Holdings, Inc. had negative net equity, resulting in the initial investment to be valued at zero. Asetek Holdings, Inc. represents Asetek A/S's only direct investment in subsidiaries. Refer to Note 22 of the Consolidated Financial Statements for additional information regarding the subsidiaries of Asetek A/S.

9. RECEIVABLES FROM SUBSIDIARIES

As of December 31,

(USD 000's)	2018	2017
Asetek Danmark A/S	1,385	349
Asetek USA, Inc.	508	(1)
Asetek Xiamen	155	124
Asetek Holdings, Inc.	85	79
Net receivables from subsidiaries	**2,134**	**551**
Average effective interest rate	**7.0%**	**6.1%**

The fair value of receivables corresponds in all material respects to the carrying amount. As of December 31, 2018 and 2017, there is no credit loss provision deemed necessary for receivables from subsidiaries.

10. EQUITY

A dividend pertaining to the year ended December 31, 2016 of NOK1.00 per share, for a total payout of $2.9 million, was paid in 2017. Reference is made to Note 18 to the Consolidated Financial Statements.

11. TRANSACTIONS WITH RELATED PARTIES

Asetek A/S charges its subsidiaries a management service fee. Reference Notes 8 & 9 regarding transactions with subsidiaries. With regard to transactions with related parties that are not subsidiaries, reference is made to Note 21 to the Consolidated Financial Statements.

12. EVENTS AFTER THE REPORTING PERIOD

Reference is made to Note 25 to the Consolidated Financial Statements.

13. CONTINGENT LIABILITIES

The Danish group enterprises are jointly and severally liable for tax on group income subject to joint taxation, as well as for Danish withholding taxes by way of dividend tax, royalty tax, tax on unearned income and any subsequent adjustments to these. Asetek A/S has executed a guarantee to its Group's principal bank, Sydbank, for all outstanding matters with its wholly owned subsidiary, Asetek Danmark A/S.

Reference is made to Note 26 to the Consolidated Financial Statements.

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